

REPUBLIC OF KENYA



16 OCT 2018

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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
KENYA DAIRY BOARD

FOR THE YEAR ENDED  
30 JUNE 2017

Paper laid on the  
Table of the House  
by the Leader of  
the Majority Party  
on Tuesday  
16<sup>th</sup> October 2018.

A handwritten signature in blue ink, enclosed in a circular scribble.





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**KENYA DAIRY BOARD**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2017**

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Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
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**KEY BOARD'S INFORMATION AND MANAGEMENT**

**(a) Background information**

The Board was established in 1958 through an Act of Parliament, The Dairy Industry Act, Cap 336

**(b) Principal Activities**

The mandate of the Board is to regulate, promote and develop Dairy Industry in Kenya.

**(c) Key Management**

The Board's day to day Management is under the following;

- Board of Directors
- Managing Director
- Technical Services Manager
- Administrative Manager
- Finance Manager

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30 June 2017 and who had direct fiduciary responsibility were;

<b>No. Designation</b>	<b>Name</b>
1. Managing Director	Margaret R Kibogy
2. Technical Services Manager	Dr. Philip Cheroni
3. Administrative Manager	Peter Mutua
4. Ag Finance Manager	Edward Nyoike

**(e) Fiduciary Oversight Arrangement**

**Audit Committee of the Board**

Philip Kibusie  
Lucy Kariuki  
Lorna Odero  
Daud Ramadhan

**Finance and Planning Committee of the Board**

Jared Makworo Nyanumba  
Lucy Kariuki  
Lorna Odero  
Jackson Omaido

**(f) Kenya Dairy Board Headquarters**

NSSF Building, Block A  
Eastern Wing, 10th Floor  
P.O. Box 30406  
GPO 00100  
Nairobi, Kenya

**(g) Contacts**

Telephone (020) 310559, 341302, 0733 521438, 0722 573432  
E-mail: [info@kdb.co.ke](mailto:info@kdb.co.ke)  
Website: [www.kdb.co.ke](http://www.kdb.co.ke)

**(h) Bankers**

Kenya Commercial Bank Limited  
Milimani Branch, NSSF Building  
P.O. Box 69695  
Tom Mboya 00400  
Nairobi, Kenya

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**KEY BOARD'S INFORMATION AND MANAGEMENT (Continued)**

Co-operative Bank of Kenya Limited  
Upper Hill Branch, KUSCO Centre, Kilimanjaro Road  
P.O. Box 48231  
City Square 00200  
Nairobi, Kenya

National Bank of Kenya Limited  
Harambee Avenue Branch  
P.O. Box 72866  
City Square 00200  
Nairobi, Kenya

**(i) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GPO 00100  
Nairobi, Kenya

**(j) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P. O. Box 40112  
City Square 00200  
Nairobi, Kenya

**THE BOARD OF DIRECTORS**



Anthony Ian Njoroge Mutugi

Mr. Anthony Mutugi is a Non- Executive Chairman of the Board. A holder of Bachelor of Science Degree in Agriculture from University of Nairobi. He has extensive experience in Agronomics, Tea and Coffee Production Management and Resource Management. He currently the General Manager and Director, Riverdale Blooms Limited. Previously, Mr. Mutugi has served as the Mill Operations Manager at Socfinaf Coffee Mills - Oaklands Estate Ruiru, Managing Director, Tropical Farm Management Tanzania Limited in Moshi, among other Senior Management positions.



Margaret Kibogy Rugut  
CEO/Secretary to the Board

Margaret Rugut Kibogy was appointed in May 2016 as the Managing Director, Kenya Dairy Board. Ms. Kibogy brings on board experience in Business Growth, Management and Marketing having served in the Banking Industry in various capacities. She holds Master of Business Administration (MBA), Marketing from University of Nairobi.



Hon. Matu Wamae, EBS

He is an Non - Executive Director representing Processors in the Board. He hold a Bachelors Degree in Economics from the University of Delhi, India. Additionally, he has undertaken several other courses including Central Banking and Reserve Banking. He has served the Government of Kenya in Various capacities, which culminated to his appointment as the Executive Director of the Industrial and Commercial Development Corporation. He has also served as a member of Parliament for three terms and a Director in many public and private sector institutions and currently the Chairman of New KCC. Hon Wamae is a renowned Dairy farmer and an accomplished Businessman.



Jared Nyanumba

Mr. Jared Nyanumba is a Non- Executive Director of the Board. A holder of MSc Procurement and Logistics –Jomo Kenyatta University of Agriculture & Technology and Bachelor of Arts in Education of the University of Nairobi. He is passionate about Business Strategy Development and implementation having worked in various capacities in Fast Moving Consumer Goods, Insurance and Banking Industries.



Mrs. Sarah Boit

Mrs. Sarah Boit is a Non – Executive Director of the Board. She has over 25 years' experience as career educator where she rose to the position of TAC Tutor in charge of Eldoret Municipality. She is also an astute business woman having taken over the proprietorship and management of the Large Scale Kapsuswa Farm as well as Kaptindo Tea Estates turning them into well managed profitable ventures. She has extensive hands on experience in dairy management, production technology and resource management.



Philip Kibusie

Mr. Philip Kibusie is a Non- Executive Director of the Board. He is the Current Chairman of Sirikwa Dairies and has extensive experience in Conservation, Production Management and Resource Management with emphasis on Applied Innovation. He holds Diploma in Technical Education (Mechanical Engineering) from Kenya Technical Teachers College. He has wealth of experience in management, dairy farming and products having worked with various stakeholders in the dairy industry.



Samuel Wanjohi

Mr. Samuel Wanjohi is a Non- Executive Director of the Board, He has extensive experience in Management of Dairy Cooperatives and a Founder member of Nyala Dairy Co-operative where he is currently serving as the Chairman. He holds Diploma in Education Administration from University of Leeds, England. He has wealth of experience in dairy farming and products having worked with various stakeholders in the dairy industry.

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**THE BOARD OF DIRECTORS**



Kadhengi Dzombo

Mr. Kadhengi Dzombo is a Non- Executive Director of the Board has had experience in Community mobilization, Water and Resource Management. In His position as the current Chairman of Muungano Dairy and Treasurer of Ganze Dairy. He is a Dairy Farmer of repute.



Kenneth Kimoi Lomaibong

Mr. Kenneth P. Lomaibong is a Non -Executive Director of the Board. He is currently serving as the chairman of Lelan Highland Dairy Limited. He is also a member of West Pokot county Budget and economy, Northern Corridor Peace and Conflict Resolution Forum and serves as Board member for a number of Schools.



Monicah Kariithi

Mrs. Monicah Kariithi is a Non-Executive Director of the Board. She graduated from Loreto Convent Limuru in 1966 and Kianda Secretarial College in 1968. She is a seasoned community leader in mobilization of resources and empowerment of community. She is the founder of Kirima Slopes Dairy where she is currently serving as the Coordinator. She has also held various positions in the Church where she is currently serving as the Vice Chair - ACK Kithiru Parish. She has a lot of experience in business particularly in dairy farming among others.



Daud M Ramadhan

Mr. Daud M Ramadhan is a Non - Executive Director of the Board. He has extensive management experience gained in various organizations including Serena Hotel, Kyeni - Runyenje Al-Aswad Hotel, Runvest Limited, Coolbreeze Company Limited and Black Shield Security Services Company Limited. He is also renowned Dairy Farmer.



Daoud Tari Abkula

Mr. Daoud Tari Abkula is a Non - Executive Director of the Board. He has worked in various Government Development Agencies before moving to advocacy work on Pastoralism, where he has served as the Chairman - Pastoralist Thematic Group in the PRSP Process in Kenya, Advisor in DFID Funded and UN housed Horn of Africa Pastoralist Communication Initiative and founding member of the Partners Coordinating Committee of WISP. At the International level, he has played key role in the establishment of Pastoralist Forum in Ethiopia, Regional Pastoralist Bureau, coordination of Pastoralist gatherings across the Globe and Horn of Africa among others. He is very experienced in community leadership.



Jackson Omaid

Mr. Jackson Omaid is a Non - Executive Director of the Board. He is a holder of Bachelor of Arts Degree in Graphic Design - University of Nairobi. He has extensive experience in training, farming as well as management. He is the current Executor and Trustee (Director) of Amagoro Farm which specialises in Cash Crops and Dairy farming. He has also served as the Founding Director, Environmental Concern in Kenya among other senior positions.



Mrs. Lucy Kariuki

Mrs. Lucy Kariuki - Alternate Director to the Principal Secretary, National Treasury. She is a Certified Public Accountant of Kenya and holds a Masters Degree in Administration from Maastricht University. She has extensive experience in Financial Management and Accounting having worked in Senior Management positions in the National Treasury where she is currently serving as the Senior Assistant Accountant General .



Lorna Akoth Otero

Ms. Lorna Akoth Otero is the alternate Director to the Principal Secretary, Ministry of Agriculture, Livestock and Fisheries. She holds a Masters of Business Administration in Public Service (International) from University of Birmingham and Bachelor of Arts degree from the University of Nairobi. In addition, she has attended various courses both locally and internationally as part of her professional development. She has served the Government of Kenya in various Capacities raising through the ranks from Assistant Secretary in the Ministry of Co-operatives to her current position where she is the Director of Administration in the Ministry of Agriculture, Livestock and Fisheries, State Department of Livestock.

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**MANAGEMENT TEAM**



Margaret Kibogy Rugut  
CEO/Managing Director

Margaret Rugut Kibogy was appointed in May 2016 as the Managing Director, Kenya Dairy Board. Ms. Kibogy brings on board experience in Business Growth, Management and Marketing having served the banking industry in various capacities. She holds Master of Business Administration (MBA), Marketing from University of Nairobi.



Dr. Philip Cheron, HSC  
Technical Services Manager

Dr. Phillip Cheron holds a degree in Veterinary Medicine from the University of Nairobi and a post graduate Diploma on International Food Audit Systems. He has a long work experience in Public sector. He is a Certified Trainer on Corporate Governance and a member of the Institute of Directors, Kenya.



Peter Mutua  
Administrative Manager

Mr. Peter Mutua holds Bachelor of Arts graduate from the University of Nairobi, Mr. Mutua has undergone extensive professional training in the fields of human resource, administration, quality management systems and corporate governance. He has over 20 years' experience in the area of human resources and administration gained both in the public and private sectors.



Edward Nyoike  
Ag. Finance Manager

Mr. Edward Nyoike holds a Bachelor of Agribusiness Management (Egerton University) and he is currently pursuing Master of Business Administration (University of Nairobi). He is a Certified Public Accountant, CPA (K) and Certified Internal Auditor (CIA).

**KENYA DAIRY BOARD  
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**CHAIRMAN'S STATEMENT**

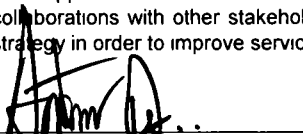
The Kenyan dairy industry is the largest within the Agriculture sector, contributing to 4.5% of the country's GDP and approximately 12% and 44% to the agricultural and livestock GDP respectively. This vibrancy is attributed to the increasing domestic milk production, enhanced processing capacity and the growing milk consumption trends. Dairy produce has a high potential of stimulating trade both locally and internationally.

In Kenya, dairying provides food and economic sustenance through income and employment creation. Significantly, dairying provides employment to over 1.8 million people across the dairy value chain; farmers, transporters, traders and vendors, employees of dairy societies, milk processors, input suppliers and service providers, retailers and distributors.

About 80% of Kenya's total milk production (currently estimated at 5.2 billion litres per annum), is produced by more than 1.5 million smallholder dairy farmers. Milk is produced predominantly from improved cattle whose population is estimated at 4 million herds and indigenous breeds numbering about 17 million in addition to goats.

Kenya Dairy Board is mandated to regulate, develop and promote the dairy industry in the interest of producers, consumers and other stakeholders. The regulatory role of the Board is mainly discharged at the national level. The implementation of policy is executed in collaboration with the County Governments whose role continues to be central to the growth of the industry.

The support of the National and County Governments continues to be central to the success of our operations. Partnerships and collaborations with other stakeholders including development partners have been beneficial and will continue to be part of our strategy in order to improve service delivery to stakeholders.



**Anthony Ian N. Mutugi**  
Chairman of the Board

Nairobi, Kenya

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**REPORT OF THE MANAGING DIRECTOR**

Kenya Dairy Board was established in 1958 through an Act of Parliament, the Dairy Industry Act Cap 336 of the Laws of Kenya to regulate, promote and develop the dairy industry. The Board has continued to facilitate a value driven and sustainable dairy industry as stipulated in Kenya Vision 2030 and the Act, with the primary focus being the quality and safety of milk and milk products for both local and export markets.

Milk production in Kenya is largely dependent on rainfall patterns, leading to seasonality in production. The country experienced unreliable rainfall from the third quarter of 2016 through 2017, affecting milk production and resulting to decreased formal milk intakes. This increased producer prices and the prices of pasteurized milk by as much as 30%. The Governments approval for the importation of 9,000 metric tons of duty free milk powder by the processors to supplement local production stabilized the situation. The seasonality of milk production therefore needs to be managed to ensure steady production and demand for milk and milk products.

In order to strengthen the Boards regulatory framework, the dairy industry regulations were reviewed in order to incorporate emerging regulatory needs, re align our operations to the new constitution and facilitate compliance in the industry through effective regulation. The draft regulations were shared through a national stakeholders forum held in June 2017 and are now being finalized for submission and gazettment.

In the 2016-2017 Financial year, the Board undertook several activities aimed at improving compliance to milk safety and quality. The enforcement of the dairy industry regulations through routine inspections and anti-hawking programs resulted to improved compliance to quality standards and safety requirements. In order to improve service delivery and provide regulatory support, the Board developed and launched a Licensing and Inspection System (LIS). This is expected to increase our operational efficiency.

In order to address the growing consumer needs, the Board executed a national consumer education campaign aimed at encouraging consumption of quality and safe milk, alongside building the capacity of milk dealers. The Board continues to participate in the review and development of dairy standards in order to align the industry standards with those of the region. Sixteen standards were harmonized with the East African Community during the financial year.

Low compliance to quality standards and safety requirements continues to pose serious public health concerns to consumers. Over the years, the Board has relied on outsourced services to carry out comprehensive quality surveillance tests. In the 2016-2017 Financial year, the Board initiated the process of development of a National Laboratory facility with a view of enhancing its internal capacity to efficiently support quality and safety management in the marketing of dairy produce. Upon completion, the Board will have achieved a key milestone in ensuring that marketed dairy produce meets the required standards for safety and quality.

The Board remains committed to establishing a conducive regulatory environment that will promote the development of our dairy industry, stimulate and nurture investment, while protecting the interests of the consumers by promoting compliance to safety and quality requirements across the dairy value chain.



**Margaret R. Kibogy**  
Managing Director.

Nairobi, Kenya

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**CORPORATE GOVERNANCE STATEMENT**

**THE BOARD OF DIRECTORS**

The Board of Directors is the body of appointed members who jointly oversee the activities of the organization. The Board provides strategic direction, exercise control and remain accountable through effective leadership, enterprise, integrity and good judgment. It is diverse in its composition, independent but flexible, pragmatic, objective and focused on balanced and sustainable performance of the organization.

**Board Composition**

The appointing authority ensures that the Board composition complies with requirements in the Constitution of Kenya and any applicable legislation, its members act independently, each Board member understands the broad outline of the organization's policies, each Board member is in good standing professionally and has sufficient expertise to perform his or her role as a Board member; and at least one member is a financial expert, meaning that he or she has expertise in financial management and accounting.

**Independence of Board Members**

All Board members, including those nominated to represent special interests, recognize that they owe their duties to the organization and not their respective entities or special groups.

**Term Limits**

Board members hold office for a period not exceeding three (3) years, and are eligible for reappointment for one more term not exceeding three (3) years. The renewal of a Board Member's tenure for a second is subject to an acceptable evaluation as determined during Board evaluations.

The appointing authority ensured staggering of Board appointments so that the respective expiry dates of the members terms fall at different time to ensure continuity.

**Chairperson of the Board**

The Chairperson of the Board is primarily responsible for the activities of the Board and its committees. The role of the Chairperson includes approving the agenda for board meetings, chairing the meetings and ensuring that a record of proceedings of all Board activities is kept. The Chairperson should act as the spokesperson for the Board.

**Chief Executive Officer**

The Managing Director/Chief Executive Officer (CEO) is an ex-officio Board member with no voting rights. The CEO and the Board play separate and distinct roles but work together to achieve organizational goals.

The Board is responsible for appointing the CEO, through a competitive process, and for removing them. The CEO is responsible for overseeing the execution of the Board's directions and policies to ensure desirable outcomes. The CEO therefore serves as the link between the Board and the Management.

**Relationship between Board and Management**

The Board and Management should execute their mandate in an environment of mutual trust and respect having regard to the principles of good governance. In this regard, the Board shall provide clear and distinct lines of responsibility and accountability, and maintain effective channels of communication.

**THE BOARD CHARTER**

The Board of Directors Charter (the "Charter") defines the Board's roles and responsibilities as well as functions and structures in a way that supports the members in carrying out their strategic oversight function. It provides the Board members with an opportunity to think creatively and critically about how their strategic and operational plans align with the organization's strategic direction and expectations, with respect to governance.

The Charter helps the Board in directing the organization to maximize the long term value of services provided for all stakeholders. The Board of Directors reviews this Charter at least annually and, if appropriate, revise this Charter from time to time.

The Charter was adopted by the Board, acting in accordance with *Mwongozo, Code of Governance for State Corporations* ('the Code'), and is complementary to the requirements regarding the Board and Board members contained in applicable Kenyan laws and regulations. In particular, the principles and policies contained in the Charter are in addition to and are not intended to change or interpret any statute, law or regulation.

The Board of Directors reviews this Charter at least annually and, if appropriate, revise this Charter from time to time.

Kenya Dairy Board has adopted high standards and applies strict rules of conduct, based on the best corporate practices. As part of this commitment, the Board adheres to good corporate governance by embracing the following principles:

- To observe high standards of ethical and moral behaviour.
- Act in the best interests of the organization.
- Remunerate and promote fairness and responsibility.
- Recognize the legitimate interests of all stakeholders
- Ensure that the organization acts as a good corporate citizen.

**CORPORATE GOVERNANCE STATEMENT (Continued)**

**THE COMMITTEES OF THE BOARD**

To effectively discharge its mandate, the Board has established committees with specific terms of reference. The Board appoints into committees, members with requisite skills and competence to discharge allocated responsibilities. In the event that a committee lacks specific skills within its membership, the Board may, with the approval of the oversight body, co-opt skilled non-Board members to serve on the committee, provided that the chair of a committee shall not be a co-opted member or the Chairperson of the Board. The Board may, from time to time, rotate Board members between the committees.

The Board remains collectively responsible for the decisions and actions taken by any committee. A committee may only perform the tasks delegated to it by the Board and may not exceed the authority or powers of the Board.

The Chairperson of each committee, in consultation with the Board, determines the frequency of committee meetings as is necessary to fulfil the Committee's functions. The Chairperson of each committee, in consultation with management, will develop the committee's agenda. The Board will however determine the procedure and process within which committees may take independent professional advice at the organization's expense.

The committees promptly reports to the Board any actions taken for ratification and any major developments that they become aware of. The Board shall, as set out in the terms of reference of the respective committees, receive a report of the committee's findings and actions.

The Board has established the following standing committees;

- Audit Committee
- Finance & Planning Committee
- Technical, Licensing and Marketing Committee
- Human Resources & Administration

The Board may establish any other ad hoc committees to handle any special business. The Terms of Reference of the committees of the Board has been developed by the Board.

**BOARD RESPONSIBILITIES**

The basic responsibility of the Board members is to exercise their best judgment and to act in a manner that they reasonably believe to be in the best interest of the organization and its stakeholders. In discharging that obligation, the members are entitled to rely on the honesty and integrity of the organization's management, staff and its external professional advisors and auditors.

In furtherance of its responsibilities, the Board determines the organization's mission, vision, purpose and core values, reviews, evaluates and approves, on a regular basis, long-term plans, budget and financial forecasts, major resource allocations and capital investments for the organization, protects the rights of shareholders and optimizes shareholder value.

**Responsibilities of Individual Board Members**

Each Board member exercises the highest degree of care, skill and diligence in discharging their duties, acts honestly at all times and in the best interest of the organization and not for any other purpose.

**Principles of Public Service**

The Board, in performing its functions, is guided by the principles of Public Service as provided in Chapter Thirteen of the Constitution of Kenya, which include:

- High standards of professional ethics;
- Efficient, effective and economic use of resources;
- Responsive, prompt, effective, impartial and equitable provision of services;
- Involvement of stakeholders in policy making;
- Accountability for administrative acts;
- Transparent and timely provision to the public of accurate information;
- Fair competition and merit as the basis of appointments and promotions;
- Representation of Kenya's diverse communities; and

**BOARD AND COMMITTEES MEETINGS**

Board meetings are held at least four (4) times a year, and not more than 4 months elapse between the date of one meeting and the date of the next meeting. A schedule of dates of the meetings is agreed upon by the Board members and set out in the Board work plan. Notices of the location and the timing of meetings are issued prior to the meetings. The Board work plan may be adjusted if deemed necessary by the Board.

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**CORPORATE GOVERNANCE STATEMENT (Continued)**

The quorum for a Board meeting is two thirds of the (2/3) members where the total Board membership is eight to nine and four where the total membership is seven and below. A summary of the board meetings and attendance is shown below:-

**Full Board meetings: Members' attendance for 2016/2017**

Name	Position	27-Jul-16	27-Sep-16	23-Mar-17	9-Jun-17
Antony Mutugi	Chairman	√	√	√	√
Margaret Kibogy	CEO	√	√	√	√
Philip Kibusie	Member	√	√	√	√
Daud Ramadhan	Member	√	√	√	√
Kenneth Lomaibong	Member	√	√	√	√
Kadhengi Dzombo	Member	√	√	√	√
Monica W. Kariithi	Member	√	√	√	√
Sarah Boit	Member	√	√	√	x
Jared Nyanumba	Member	√	√	√	√
Daoud Abkula	Member	√	√	√	√
Matu Wamae	Member	√	√	√	x
Samuel N.Wanjohi	Member	√	√	√	√
Jackson Omaido	Member	x	√	√	√
Lorna Odero	Member	x	x	√	√
Lucy Kariuki	Member	√	√	√	√

**Audit Committee**

The Audit Committee consists of four non-executive directors and reports to the Board after every committee meeting. The chairperson is an independent non-executive Director.

**Audit Committee meetings: Members' attendance for 2016/2017**

Board Member	Position	22-Jul-16	18-Oct-16	21-Mar-17	6-Jun-17
Philip Kibusie	Chairperson	√	√	√	√
Daud Ramadhan	Member	√	√	√	√
Lorna Odero	Member	√	√	√	√
Lucy Kariuki	Member	x	√	x	x
Margaret Kibogy	CEO	√	√	√	√
Peter Mutua	HOD	√	√	x	√
Philip Cheron	HOD	√	x	x	x
Edward Nyoike	HOD	√	√	x	√
Erastus Mutiso	Senior Auditor	√	√	√	√

**Human Resource and Administration Committee**

The Committee is constituted in line with section 5 of the Dairy Industry Act Cap 336 to review Board papers touching on Human Resources, Procurement, Security, Governance, Assets management and Legal issues and make recommendations to the full Board for adoption, provide input to the determination of the organization's mission, vision and core values, make recommendations to the Board for the enhancement of the Board's public image and engagement with stakeholders through effective communication.

**Human Resources & Administration Committee meetings: Members' attendance for 2016/2017**

Board Member	Position	6-Sep-16	20-Mar-17
Samuel N.Wanjohi	Chairman	√	√
Kenneth Lomaibong	Member	√	√
Margaret Kibogy	CEO	√	√
Kadhengi Dzombo	Member	√	√
Sarah Boit	Member	√	√
Peter Mutua	HOD	√	√
Philip Cheron	HOD	√	x
Edward Nyoike	HOD	√	x

**Finance & Planning Committee**

This Committee reviews Board papers touching on budget and financial forecast, resource allocations and capital investments, operating and financial results and makes recommendations to the full Board for adoption or approval.

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**CORPORATE GOVERNANCE STATEMENT (Continued)**

**Finance & Planning Committee meetings: Members' attendance for 2016/2017**

Board Member	Position	23-Sep-16	21-Oct-16	5-Jun-17
Jared Nyanumba	Chairman	√	√	√
Jackson Omaido	Member	√	√	√
Lorna Odera	Member	√	√	√
Lucy Kariuki	Member	√	√	√
Margaret Kibogy	CEO	√	√	√
Peter Mutua	HOD	√	√	√
Philip Cheronono	HOD	√	√	√
Edward Nyoike	HOD	√	√	√

**Technical, Licensing and Marketing Committee**

The Technical Licensing and Marketing Committee reviews Board papers touching on Technical, Licensing and marketing, and make recommendation to the Full Board for adoption.

**Technical, Licensing and Marketing Committee meetings: Members' attendance for 2016/2017**

Board Member	Position	27-Sep-16	22-Mar-17
Matu Wamae	Chairman	x	√
Daoud Abkula	Member	√	√
Monica W.Kariithi	Member	√	√
Sarah Boit	Member	√	√
Margaret Kibogy	CEO	√	√
Peter Mutua	HOD	√	√
Philip Cheronono	HOD	√	√
Edward Nyoike	HOD	√	x

**PROCUREMENT**

**Policy of the Kenya Dairy Board on Procurement**

All funds budgeted and approved for the purpose of procurement are spent on the intended purposes. This applies both to development and recurrent expenditures.

It is also Board's policy to allow open competition for procurement without discrimination in a transparent, fair and accountable manner to ensure achievement of value for money in all procurement.

All transactions for the supply of goods or services, to or execution of work for the Board is subject to open competitive tendering, quotations (written) or cash imprest except as otherwise provided.

It is the Boards policy to support Kenyan entrepreneurs.

All procurement in KDB must be made centrally and through the Purchasing Section of Administration Department. The Department Manager may initiate procurement but it is required to pass through the centralized supply processes stipulated in the Manual.

**Procurement function**

The top 10 procurement contracts for the financial year 2016-2017 are as listed below:-

Name of the Supplier	Date Awarded	Amount (Kshs)
Merki Consultants Limited	8/30/2016	2,140,000
Britam General Insurance Company Limited	01/11/2016	4,984,031
Wavetech Accessories	11/21/2016	1,400,000
Cidma Supplies	01/02/2017	1,340,140
Labcorp Laboratories & Supplies	2/14/2017	1,809,020
General Motors (EA) Limited	2/20/2017	10,050,000
The Kenya School of Law	4/18/2017	2,113,650
Ibrand Limited	4/24/2017	8,950,435
Ashut Engineering Limited	08/05/2017	1,326,650
Vision on the Go Limited	5/24/2017	20,771,359

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**MANAGEMENT DISCUSSION AND ANALYSIS**

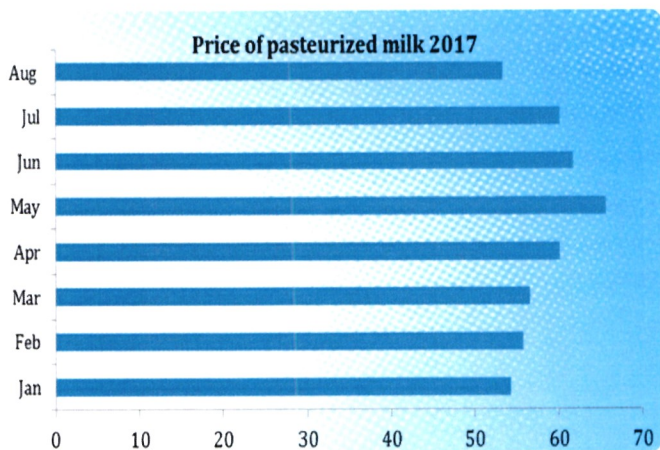
The Dairy Industry Act Cap 336 of the laws of Kenya mandates the Kenya Dairy Board to regulate, develop and promote the dairy industry in the interests of producers, consumers and other stakeholders.

In discharging the above mandate, the Board undertook several dairy regulatory, developmental and promotional activities aimed at improving compliance to milk quality and safety requirements and expanding the volumes of formally marketed milk.

**PERFORMANCE OF THE DAIRY INDUSTRY**

Milk production in Kenya is dependent on rainfall patterns. The country has generally experienced unreliable rainfalls from the third quarter of 2016 and through 2017.

This affected milk production and the volumes available for marketing. The formal milk sector experienced a big drop in milk intakes from February 2017 and as a result could not meet the market demands from local production. The stocks of milk powder and long life products held by the processors were utilized and exhausted to meet the market demand for liquid milk. This generally increased the price of pasteurized milk and other products by as much as 30%. The fluctuations in prices of pasteurized milk in 2017 are shown in the graph 1 below:

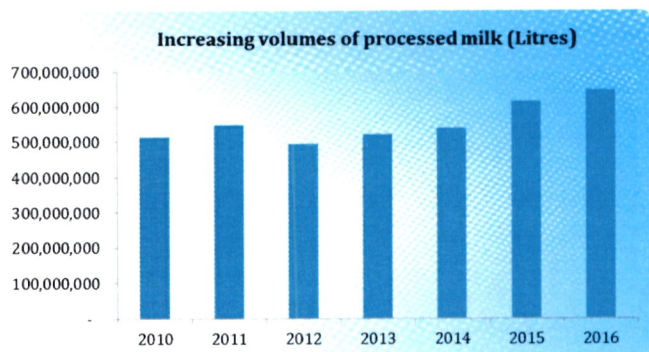


Graph 1: Prices of pasteurized milk in 2017 (source: KNBS)

Concerned with this situation, the Government approved the importation of 9,000 metric tons of duty free milk powder by milk processors to supplement local production. This intervention has lowered the prices of liquid milk by as much as 18% from the all-time high of Ksh 65 in May 2017.

The domestic market for processed milk and milk products has continued to grow. In 2016, a total of 648 million litres of raw milk was received and processed. This was a growth of 5% from the 615 million litres received and processed in 2015. Product diversification from the traditional fresh pasteurized milk has continued to grow with increasing demand from consumers. Fermented milk products have grown in popularity to command approximately 10% of the total volume of processed.

The large demand for milk and milk products in the domestic market was partly met by imports of long life milk from Uganda under the EAC Common Market protocol. Uganda is a major source of Kenyan dairy imports and also a major destination of Kenya's dairy products.



Graph 2: Increasing volumes of processed milk

Overall, the Kenyan dairy industry continued to be a key socio-economic enterprise at national and county levels by;

- a) Providing livelihoods for approximately 1.8 million households
- b) Providing over 1.2 million jobs directly and indirectly
- c) Contributing approximately 4.5% to the national GDP
- d) Nourishing millions of Kenyans.

According to the Food and Agricultural Organization (FAO), milk is one of the most consumed products in the world and the 5<sup>th</sup> most produced commodity by quantity of production. Milk has balanced nutrition and is vital for a healthy Kenyan population.

Various challenges however impede the potential of the Kenyan dairy industry. These in summary include;

- Reliance on rain fed agriculture
- High cost of production across the chain
- Low involvement of youth in the industry
- Low adoption of appropriate technologies
- inaccurate and current information to aid in planning and decision making
- Poor practices across the value chain that affect productivity and compliance

**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

**DAIRY REGULATORY ACTIVITIES**

**(1) Enforcement of the Dairy industry Act Cap 336**

In order to enforce the dairy industry regulations, the Board conducted thirty two (32) quarterly joint antihawking activities in all the operational clusters. This resulted to improved compliance by the dairy industry operators to quality and safety requirements. In addition, over one thousand one hundred and fifty milk dealers were licensed during the period with over 4,000 quarterly inspections conducted to ascertain the degree of compliance for dairy business premises. In order to ascertain the quality of marketed dairy produce, over 50,000 quality milk tests were conducted across the country. The biannual quality surveillance conducted during the period showed significant improvement of quality of marketed milk.



Disposal of confiscated and contaminated milk on court's order

The licensee base for the year is summarized below:

Category of licence	No. of licensees
Primary producers	183
Cooling centres	155
Milk bars	1,471
Cottage industries	64
Mini dairies	148
Processors	40
Dairy managers	27
<b>Total</b>	<b>2,088</b>

**(2) Drafting and sharing of Dairy Regulations**

During the financial year 2016/2017, the Board had set aside various activities to ensure that its core mandate of regulation of the dairy industry is achieved. In order to create an enabling environment for the growth of the sector the Board established mechanisms for strengthening its regulatory framework by reviewing the dairy industry regulations. This was aimed at incorporating the regulatory needs in the changing economic, social and technological environment and also to facilitate effective compliance in the industry. The Board was able to hold a national stakeholders forum to sensitize the public on the envisaged changes in the regulations.

**(3) Enhancing of inspection and licensing services.**

Operational efficiency remained a key consideration in rendering regulatory services of the Board to the general public. In line with this, the Board commissioned the Licensing and Inspection System (LIS) and rolled out its operations to six field offices in Nairobi and Thika. The system enhanced the efficiency of inspection and licensing with a view of reducing the time taken and operational costs of compliance management. The system will further be rolled out to all other branches in the coming year taking into considerations the necessary improvements identified in the roll out stage.

**(4) Capacity development of dairy inspectors**



Dairy Inspectors in the prosecution training

The capacity of the inspectors to manage the dairy industry was enhanced through training and skills improvement programs. Fourteen inspectors were trained on Public Prosecution at the Kenya School of Law in order to improve their prosecutorial skills while conducting their regulatory activities.

**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

**B. DAIRY DEVELOPMENTAL ACTIVITIES**

**(1) Training of milk dealers on compliance**

The dairy industry in Kenya is smallholder driven with a large number of milk dealers involved in milk production, transportation, bulking, processing and marketing. The milk dealers are required to comply with the relevant dairy legislations, regulations and standards. Increasing the value and turnover of the industry through milk processing and value addition is key to the vibrancy and sustainability of the Kenyan dairy industry.



**Medium and small-scale milk dealers were trained on Good Manufacturing Practices (GMP)**

The Board organized capacity building forums for milk dealers to enhance compliance to milk quality and safety requirements, increase awareness and adoption of good hygienic practices and to promote milk processing and value addition. In total, 580 milk dealers were trained across the country.

**(2) Piloting of a milk quality and traceability application**

The Board partnered with the Standards Market Access Programme (SMAP), Kenya Dairy Processors Association (KDPA) and Agritech Solutions Limited to pilot a milk quality and traceability application (e-TraceD) at Kitiri and Kabiye dairy farmers groups. The application, which runs on a web and mobile platform, was developed by Agritech Solutions Limited to automate data collection during milk grading, collection and transportation. It also provides a traceability mechanism to identify and trace dairy produce back to specific milk suppliers.

Sensitizations and trainings were conducted in the two groups prior to system deployment and piloting.



**Handover of the e-TraceD system at Kitiri Multipurpose Farmers' Cooperative Union**

**(3) Review and development of dairy standards**

The Board participated in the review and development of sixteen (16) dairy standards under the custodianship of the Kenya Bureau of Standards (KEBS). Most of the standards reviewed or developed covered products from cow milk. New areas of standardization were also addressed to cover products made from camel and goat milk. These include standards for pasteurized and fermented camel milk and goat milk cheese.

**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

**(4) Partnerships and collaborations**

The Board partnered with several organizations in dairy developmental activities including capacity building, research and development and stakeholder organization. The organizations included Land O' Lakes Kenya, Netherlands Development Organization (SNV), Kenya Markets Trust (KMT), Smallholder Dairy Commercialization Programme (SDCP), GTZ, Standards and Market Access Programme and Technoserve Kenya. The areas of partnership included;

- a) Piloting of milk quality and traceability system
- b) Training of milk dealers
- c) Promotion of school milk programme
- d) Dairy research and surveys
- e) Promoting solar milk cooling technology

The Board was also a partner in the planning and implementation of the Strategic Sector Cooperation (SCC) programme which is a joint developmental programme between the Governments of Kenya and Denmark. The goal of the programme is to improve the quality and safety of dairy and horticultural produce in the country. Piloting of the programme is ongoing in Nyandarua County.

**(5) Trade facilitation**

The Board provides trade facilitation services to promote trade in milk and milk products in the domestic and export markets. The expansion of the market for Kenyan milk and milk products is key to the growth and sustainability of the Kenyan dairy industry. The Board undertakes generic promotion of Kenyan milk and milk products to promote consumption and build markets for Kenyan dairy products. Other activities undertaken include issuing permits to import and export dairy products, participation in the development and review of domestic, regional and international dairy standards and involvement in trade negotiations that affect trade in milk and milk products.

Over the period the Board facilitated trade in milk and milk products by;

- a) Issuing over 300 permits to import and export dairy produce
- b) Organizing and participating in a meeting of regional dairy regulatory authorities to harmonize intra-regional trade procedures in milk and milk products
- c) Participating in four meetings to resolve the Kenya and Zambia milk trade dispute. The dispute is now thirteen years old and has prevented Kenya to export milk powder and long life milk to Zambia. Access has however been granted to export fermented milk and condensed milk. The dispute arose due to different specifications for microbiological limits in raw milk between Kenya and Zambia.
- d) Benchmarking the Ugandan dairy industry which is the source of more than 60% of Kenya's dairy imports

**C. DAIRY PROMOTIONAL ACTIVITIES**

**(1) Consumer education**



**Launch of a consumer education roadshows by Ms. Margaret Kibogy, Managing Director**

A national consumer education campaign was planned and implemented. The main objective of the campaign was to encourage consumption of quality and safe milk by consumers. The campaign was delivered through radio and TV messages, guest appearances and activations, consumer open days, milk traders' sensitization and road shows among others.

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**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

**(2) Participation in Agricultural Shows**

The Board participated in six key ASK shows organized in Nairobi, Mombasa, Kisumu, Nakuru, Nyeri and Eldoret. Through the forum, the Board interacted with thousands of milk dealers and consumers and passed on the message of compliance to quality and safety requirements and consumption of quality milk and milk products respectively.

**(3) Promotion of school milk programme**



The Chairman and Managing Director of Kenya Dairy Board with the Governor of Migori, His Excellency Obando, during the second National School Milk Conference

The Board organized a second national school milk conference at the Pride Inn Hotel, Mombasa in November 2016. The objective of the conference was to sensitize stakeholders and review progress in adoption of the school milk programme.

The conference was attended by 324 delegates representing 45 county governments, national government, milk processors, development partners and service providers among others.

Several resolutions were reached during the conference to promote adoption of the school milk programme:

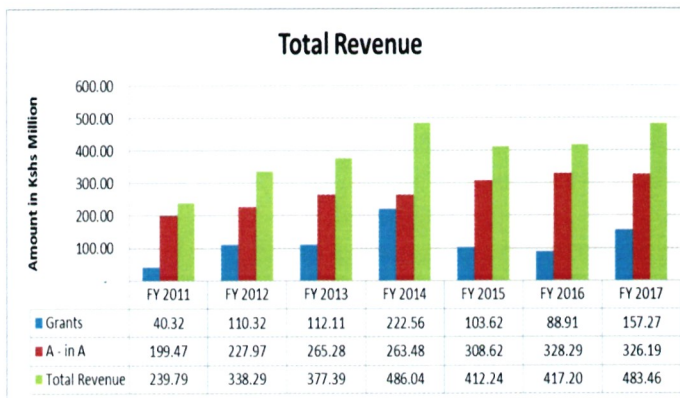
- a) Commitment by County Governments to allocate resources to school milk
- b) Development of National School Milk Policy
- c) Lobbying at National and County governments for resource allocation
- d) Establishment of a national school milk coordinating committee
- e) Development of a 5 year school milk strategic plan

**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

**D. Financial performance**

**Revenue performance**

The Board funds its operations through the internally generated revenue mainly cess, processors' levy, import levy and license fees as well as grants from the parent Ministry of Agriculture, Livestock and Fisheries. In the year ended 30 June 2017, the Board received a total of Ksh. 163.88 million as Government grant and Ksh. 9.25 million being grants from development partners. Ksh. 157.27 million which is made up of GoK grants of Ksh. 148.88 Million (Ksh. 100 Million from deferred revenue) and Ksh. 8.39 million has been recognised in the statement of comprehensive income while Ksh. 115.86 million received in the year has been deferred to the year 2017/2018.



In total, the Board recorded a total revenue of Ksh. 483.46 which is made up of Ksh. 326.19 million generated from the A in A and Ksh. 157.27 million from the grants as recognised in the statement of the financial performance.

Despite the drought which affected local milk production, the Board posted a 0.64% reduction on its internally generated revenue. The Board collected a total of Ksh. 326.19 million as compared to the revenue realised in the year ended 30 June 2016 of Ksh. 328.29 million. The positive outlook was maintained by continued surveillance on the informal milk marketing and consumer awareness campaign. Similarly, the Board generated Kshs. 15.11 million (gross of withholding tax of Ksh. 2.27 Million) from the interest negotiated on the bank balances.

**Cess, processors levy and License fees.**

The three key internal revenue sources performed as follows in the year;

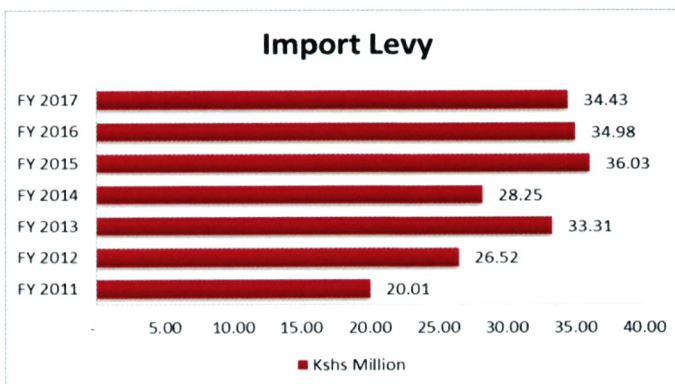


Cess which is charged at the rate of 20 Cents per litre decreased from Ksh. 132.32 million to Ksh. 128.70 representing 2.70% decrease, while processors levy decreased by 7.67% to close at Ksh. 126.77 million down from Ksh. 137.30. The reduction on cess and processors levy is as a result of the drought experienced in the year and which had a negative impact on the intakes in the formal sector. Similarly, the adoption of the milk dispensing technology and the reduction in milk production due to drought contributed significantly to the reduction in the number of licensed premises, especially, milk bars. This resulted to the overall reduction on revenue generated from licenses by 23.46% from Ksh. 19.35 million in June 2016 to Ksh. 14.81 million in the year ended June 2017.

**Import levy**

Import levy is charged at the rate of 7% on CIF value of the imported dairy products. The revenue generated from the import decreased marginally by 1.57% from Ksh. 34.98 million recorded in the previous financial year to Ksh. 34.43 million.

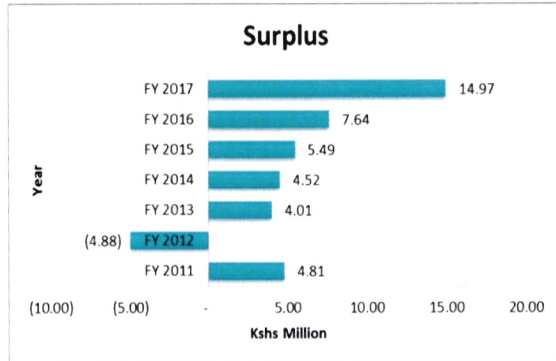
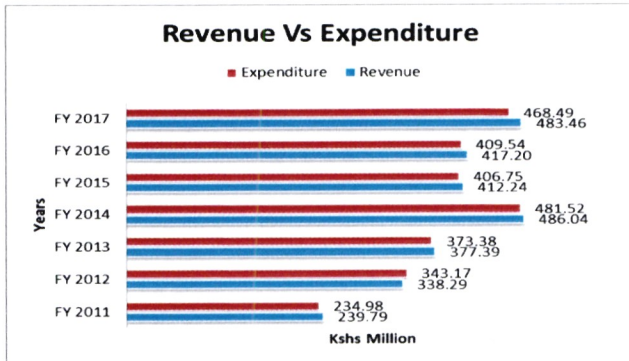
The drought experienced in the year would have resulted to increased importation which in turn would have contributed to increase levy for the Board. However, the stocks of milk powder and long life products held by the processors as well increased import from EAC Countries were utilized to meet the market demand for liquid milk.



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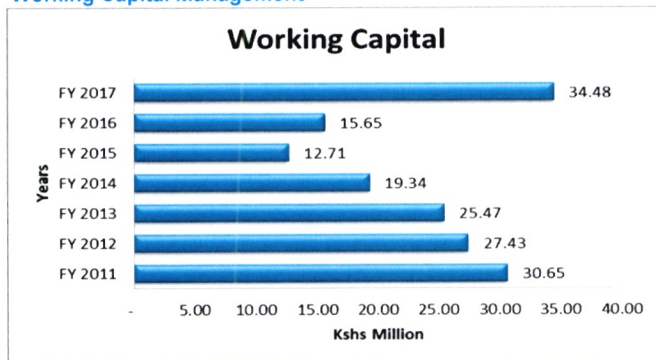
**MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

**Expenditure and surplus for the year**



The total revenue for the Board in the year ended 30 June 2017 was Ksh. 483.46 million as compared to Ksh. 417.20 million recorded in the last financial year. The expenditure during the was Ksh. 468.49 million as compared to Ksh. 409.54 million recorded in the year ended June 2016. This resulted to a surplus of Ksh. 14.97 million as compared to a surplus of Ksh. 7.64 million posted the year ended June 2016.

**Working Capital Management**



The Board has embraced managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation. The primary purpose of working capital management is to make sure the Board always maintains sufficient cash flow to meet its short-term operating costs and obligations.

The working capital, calculated as the excess of current assets in relation to the current liabilities increased to Ksh. 34.48 million as compared to Ksh. 15.65 million recorded in the year ended 30 June 2016.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

Corporate Social Responsibility (CSR) can be described as a management concept in which organizations integrate social and environmental concerns in their business operations and interactions with their stakeholders.

CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives while at the same time addressing the expectations of stakeholders. CSR can also make a valuable contribution to poverty reduction, while directly enhancing the reputation of an organization through strengthening of its brand.

More importantly, CSR aims at giving back to the community in which an organization operates in. CSR activities are aimed at enhancing the livelihoods of the beneficiary communities. It is hoped that as a result, the relationship between the community and the organization is also enhanced.

Kenya Dairy Board as a responsible corporate citizen undertook a number of CSR activities in the year 2016/17 as indicated.

### **Milk Donations**

Nutrition remains a key concern especially at the primary school level. Taking cognizance of this fact, the Board donated milk products to a number of institutions during the financial year. This was with the objective of encouraging consumption of milk and milk products so as to:

- a) Improve the nutritional status of our school going children and others as enshrined in our constitution.
- b) Encourage a milk drinking culture particularly among school going pupils.

### **Nunguni Primary School – Makueni County**



A total of 8 schools comprising more than 3,000 students from the locality benefited from the milk products. In attendance were officials from the Departments of Education, Agriculture and Livestock, Forestry, Social services, Governor's office as well as parents, provincial administration, teachers and pupils from local schools. The Chief Guest was the Chairman of Kenya Dairy Board Mr. Anthony Mutugi.

### **Nyatike - Migori County**

Kenya Plant Health Inspectorate (KEPHIS), a State Corporation in the Ministry of Agriculture, Livestock & Fisheries had organized a Farmers' Training and field day at Riat Market in Nyatike Sub County, Migori County which took place in two stages; 19th and 20th July (Farmers Training) followed by a Field Day on the 21st of July 2017. The Theme of the event was "Good Agricultural Practice and compliance to Market Access requirement for improved income and Standards of Living".

As part of our Corporate Social Responsibility, Kenya Dairy Board donated 1500 packets of milk each being 250ml to various schools in the area. The following schools benefited for the milk donations:

- Agolomuok Primary School – 300 packets
- Okayo Primary School – 300 packets
- Okayo Secondary – 200 packets
- Alendo Girls Secondary – 200 packets
- Obware Primary School – 300 packets
- Obware Secondary School – 200 packets

The Chief Guest was the Cabinet Secretary – Ministry of Agriculture, Livestock & Blue Economy Hon. Willy Bett accompanied by among others, the PS- State Department of Livestock Dr. Andrew Tuimur and the Chair – Kenya Dairy Board Mr. Anthony Mutugi among others.

### **CITAM School, Ngong**

The Board donated milk worth Kshs. 25,000 to CITAM School in Ngong – Kajiado County in the month of March, 2017. A total of 200 students and 12 staff members benefited from the donation aimed. In their request letter, the Head teacher Veronicah Kibe noted that milk is one of their basic foods and thus hoped the donation would boost the health of their children.

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**CORPORATE SOCIAL RESPONSIBILITY STATEMENT (Continued)**

**Kapsabet Girls High School, Nandi County**

Kapsabet Girls High School is one of the leading schools in the Nandi County and indeed in the country. The school held their alumni day on 13-05-2017. As part of the activities of the day, Kenya Dairy Board donated a total of 1,200 packets of milk to the school.

An estimated 1,400 attendees made up of teachers, students and support staff were present. The milk formed part of the menu for lunch and refreshments. The Board got an opportunity to articulate the benefits of milk and milk products.

**Environmental conservation**

**Tree planting - Nunguni Primary school**

As per our environmental sustainability work plan of the year 2016/2017 we targeted to plant a total of 6,000 trees either in schools, government forests or riparian areas.

In view of the aforementioned the Board planted a total of 6,500 trees in Makueni; at Nunguni Primary School. Some of the trees were also donated to Nunguni Dairy Cooperative Society for onward planting by their members as well as to other local primary schools. This is part of our contribution to:

- Environmental conservation aimed at ultimately improving the weather, thus improved rainfall, milk productivity and the economic wellbeing of the local community.
- Increasing our forest cover from the current 7 % to targeted 10% by the government.



This exercise was carried out by the Board's staff led by the Chairman Mr. Anthony Mutugi and included Nunguni Dairy Cooperative Society, the local community, Nunguni Primary School and government departments. Rationale for selection of the area was two-fold:

**National tree planting day – Elgeyo Marakwet**



The Chief Guest Mrs. Margaret Mwakima accompanied by the PS – Water Prof. Fred Segor and other guests

The National tree planting day – 2017 took place in Kaptagat forest. The forest borders Uasin Gishu and Elgeyo Marakwet counties. The day is aimed at advocating conservancy of the environment and eradication of poverty through enhancing the forest cover. A total of 7,000 trees were planted. This was in collaboration with Kenya Forest Service, ELDOWAS, Raiply, students, the local community and other stakeholders.

The guest of honour was the Principal Secretary for Environment and Natural Resources Madam Margaret Mwakima, who emphasized on the need to embrace the culture of tree planting to redeem the country glory.

**Golf tournament – Kiambu County**



Kenya Dairy Board in partnership with Kiambu Club will held a Golf Tournament on 15<sup>th</sup> July, 2017 at Kiambu. Sports just like milk enhances the health and physical wellbeing of an individual. It is in line with this synergy that the Board sponsored the tournament. A total of 120 players participated in the event.

Our partnership in the tournament greatly enhanced our corporate visibility and offered a platform for our CSR program even as we articulated our role in the Dairy Industry. Branding of the venue was done extensively in our corporate colours and materials.

**KENYA DAIRY BOARD  
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**REPORT OF THE DIRECTORS**

The Directors submit their report together with Audited Financial Statements for the year ended 30 June 2017 which show the state of the Board's affairs.

**Principal activities**

The principal activities of the Board are to organise, regulate and develop the efficient production, marketing, distribution and supply of dairy produce.

**Results**

The results of the Board for the year ended June 30, 2017 are set out on Page 25.

**Directors**

The members of the Board of Directors who served during the year are shown on Page 3 and 4.

**Auditors**

The Auditor General is responsible for statutory audit of the Board in accordance with Section 35 of the Public Audit Act 2015.

By Order of the Board



**Margaret R. Kibogy**  
Secretary to the Board  
Nairobi, Kenya

Date: 9/5/2018

**KENYA DAIRY BOARD  
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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Dairy Industry Act, Cap 336 of the Laws of Kenya requires the Directors to prepare financial statements in respect of the Board, which give a true and fair view of the state of affairs of the Board at the end of the financial year and the operating results of the Board for that year. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board. The Directors are also responsible for safeguarding the assets of the Board.

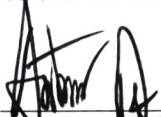
The Directors are responsible for the preparation and presentation of the Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Board; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Accounting Standards, and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of Board's transactions during the financial year ended June 30, 2017, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Board will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Board's financial statements were approved for issue by the Board of Directors on **28 September 2017**, and signed on behalf of the Board by:

  
\_\_\_\_\_  
**Anthony Ian N. Mutugi**  
Chairman of the Board  
Nairobi, Kenya

Date: 9/5/2018



\_\_\_\_\_  
**Margaret R. Kibogy**  
Managing Director  
Nairobi, Kenya

Date: 9/5/2018

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke

P.O. Box 30084-00100  
NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR GENERAL ON KENYA DAIRY BOARD FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Qualified Opinion

I have audited the accompanying financial statements of Kenya Dairy Board set out on pages 25 to 48, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Dairy Board as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and Dairy Industry Act, Cap 336 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matter described in the Basis for Qualified Opinion section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

##### Basis for Qualified Opinion

##### Property, Plant and Equipment

As similarly reported in the previous years, the property, plant and equipment balance of Kshs. 44,908,440 as at 30 June 2017 includes a parcel of land, Plot No. 205 (formerly Ref. No. PDB/R163/99/15) valued at Kshs.1,500,000, after revaluation, situated in Narok town, that was allocated to the Board in the year 2000 for office development. However, the Board has not obtained a title of

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*Report of the Auditor-General on the Financial Statements of Kenya Dairy Board for the year ended 30 June 2017*

ownership to date for the plot from the Ministry of Lands and Physical Planning. Consequently, it has not been possible to confirm ownership status of the plot.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Dairy Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

### **Responsibilities of Management and those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of

Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

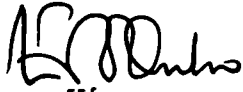
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**13 June 2018**

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2017**

	<b>Notes</b>	<b>2016-2017 Kshs</b>	<b>2015-2016 Kshs</b>
<b>Revenue from Non-exchange transactions</b>			
Cess, levies and penalties	6	296,221,249	306,022,983
Licenses and permits	7	14,812,900	19,347,940
Transfers from the Government and others	8 (b)	<u>157,268,640</u>	<u>88,908,169</u>
		<b><u>468,302,789</u></b>	<b><u>414,279,092</u></b>
<b>Revenue from exchange transactions</b>			
Interest income	9	13,403,214	464,516
Other income	10	<u>1,755,300</u>	<u>2,437,661</u>
		<b><u>15,158,514</u></b>	<b><u>2,902,177</u></b>
<b>Total revenue</b>		<b><u>483,461,303</u></b>	<b><u>417,181,269</u></b>
<b>Expenses</b>			
Administration expenses	11	50,089,716	41,486,944
Board members expenses	12	13,210,801	9,287,509
Depreciation and amortization expense	13	25,784,253	18,717,788
Employee costs	14	161,065,932	148,368,097
Operating expenses	15	65,085,569	62,722,811
Development expenses	16	146,068,709	123,405,780
Other expenses	17	6,604,025	5,547,800
<b>Total expenses</b>		<b><u>467,909,005</u></b>	<b><u>409,536,729</u></b>
<b>Surplus for the year</b>		<b><u>15,552,298</u></b>	<b><u>7,644,540</u></b>

The notes set out on pages 30 to 44 form an integral part of the financial statements

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017**

Assets	Notes	2016-2017 Kshs	2015-2016 Kshs
<b>Non current assets</b>			
Property, plant and equipment	18	44,908,440	46,221,565
Intangible assets	19	11,207,271	9,258,551
Operating leases	20	170,351,010	216,500,000
		<u>226,466,721</u>	<u>271,980,116</u>
<b>Current assets</b>			
Cash and cash equivalents	21	353,206,593	349,511,131
Receivables from non-exchange transactions	22	29,448,822	25,370,460
Other receivables and prepayments	23	25,325,031	19,955,127
		<u>407,980,446</u>	<u>394,836,718</u>
<b>Total assets</b>		<b><u>634,447,167</u></b>	<b><u>666,816,834</u></b>
<b>Liabilities</b>			
<b>Net assets</b>			
Revaluation reserves	24	170,351,010	216,500,000
Accumulated surplus	25	88,745,124	71,021,109
		<u>259,096,134</u>	<u>287,521,109</u>
<b>Non current liabilities</b>			
Gratuity provision	26	1,853,800	103,850
<b>Current liabilities</b>			
Trade and other payables from non-exchange transactions	27	14,489,340	37,592,705
Current provisions	28	2,388,243	841,000
Deferred Income	29	356,619,650	340,758,170
		<u>373,497,233</u>	<u>379,191,875</u>
<b>Total net assets and liabilities</b>		<b><u>634,447,167</u></b>	<b><u>666,816,834</u></b>

The financial statements set out on pages 25 to 44 were approved by the Board of Directors on **28 September 2017** and signed on its behalf by:



**Margaret R. Kibogy**  
Managing Director

Date: 9/5/2018



**Edward Nyoike**  
Ag. Finance Manager  
ICPAK Member No. 5668

Date: 9/05/2018



**Anthony Ian N. Mutugi**  
Chairman of the Board

Date: 9/5/2018

The notes set out on pages 30 to 44 form an integral part of the financial statements.

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	Revaluation reserve Kshs	Accumulated surplus Kshs	Total Kshs
<b>At 1 July 2015</b>	24 & 25	216,500,000	63,376,569	279,876,569
Surplus for the year	25	-	7,644,540	7,644,540
<b>At 30 June 2016</b>		<b>216,500,000</b>	<b>71,021,109</b>	<b>287,521,109</b>
<b>At 1 July 2016</b>	24 & 25	216,500,000	71,021,109	287,521,109
Surplus for the year	25	-	15,552,298	15,552,298
Prior year adjustment	24	(43,977,273)	-	(43,977,273)
Transfer of excess depreciation on revaluation	25	(2,171,717)	2,171,717	-
<b>At 30 June 2017</b>		<b>170,351,010</b>	<b>88,745,124</b>	<b>259,096,134</b>

The notes set out on pages 30 to 44 form an integral part of the financial statements.

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	2016-2017 Kshs	2015-2016 Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cess, levies and penalties		292,048,487	309,585,035
Licenses and permits		14,907,300	19,459,740
Transfers - Government and others	8	173,130,120	429,666,339
Interest income	9	13,403,214	464,516
Other income	10	254,800	275,581
Net movement in deposit, staff car loans and advances	35	(6,085,702)	616,485
<b>Total receipts</b>		<b>487,658,219</b>	<b>760,067,696</b>
<b>Payments</b>			
Administration expenses	34 (b)	49,727,852	41,549,802
Board members expenses	34 (b)	13,024,474	9,734,836
Employee costs	34 (b)	156,635,839	165,498,928
Operating expenses	34 (b)	70,182,256	56,621,136
Development expenses	34 (b)	149,893,715	120,135,369
Other expenses	34 (b)	7,405,725	4,732,590
<b>Total payments</b>	34 (b)	<b>446,869,861</b>	<b>398,272,661</b>
<b>Net cash flows from operating activities</b>		<b>40,788,358</b>	<b>361,795,035</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment	18	(32,863,296)	(22,793,461)
Purchase of intangible assets	19	(5,730,100)	(2,836,001)
Proceeds from disposal of property, plant and equipment	10	1,500,500	2,506,817
<b>Net cash flow used in investing activities</b>		<b>(37,092,896)</b>	<b>(23,122,645)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,695,462</b>	<b>338,672,390</b>
Cash and cash equivalents at beginning of period	21	349,511,131	10,838,741
<b>Cash and cash equivalents at end of period</b>	21	<b>353,206,593</b>	<b>349,511,131</b>

The notes set out on pages 30 to 44 form an integral part of the financial statements

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 30 JUNE 2017**

	Original Budget	Adjustment	Final Budget	Actual	Performance difference
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Revenue</b>					
Cess, levies and penalties	309,543,200	(20,152,800)	289,390,400	296,221,249	(6,830,849)
Licenses and permits - (Note a)	11,498,000	-	11,498,000	14,812,900	(3,314,900)
Transfers - Government and others	850,000,000	(692,731,360)	157,268,640	157,268,640	-
Interest income	-	13,000,000	13,000,000	13,403,214	(403,214)
Other income	1,100,000	700,000	1,800,000	1,755,300	44,700
<b>Total revenue - (Note b)</b>	<b>1,172,141,200</b>	<b>(699,184,160)</b>	<b>472,957,040</b>	<b>483,461,303</b>	<b>(10,504,263)</b>
<b>Expenses</b>					
Administration expenses	46,311,860	6,194,688	52,506,548	50,089,716	2,416,832
Board members expenses	16,290,000	(3,036,000)	13,254,000	13,210,801	43,199
Depreciation and amortization expense - (Note c)	29,099,677	(7,549,108)	21,550,569	25,784,253	(4,233,684)
Employee costs	179,964,517	(15,728,733)	164,235,784	161,065,932	3,169,852
Operating expenses	121,131,800	(55,401,498)	65,730,302	65,085,569	644,733
Development expenses	365,950,000	(216,688,711)	149,261,289	146,068,709	3,192,580
Other expenses	8,950,000	(2,784,475)	6,165,525	6,604,025	(438,500)
Capital expenditure	433,290,000	(410,955,000)	22,335,000	24,248,131	(1,913,131)
<b>Total expenditure</b>	<b>1,200,987,854</b>	<b>(705,948,837)</b>	<b>495,039,017</b>	<b>492,157,136</b>	<b>2,881,881</b>
<b>(Deficit)/surplus - (Note d)</b>	<b>(28,846,654)</b>	<b>6,764,677</b>	<b>(22,081,977)</b>	<b>(8,695,833)</b>	<b>(13,386,144)</b>

During the year, the Board requested for Ksh. 850 Million in Government Grants to finance the development expenditure, key among them the financing of the Construction of the National Dairy Laboratory Complex (Ksh. 400 Million). However, the Board was allocated a total Ksh. 163.8 million in recurrent grants and no allocation was received on capital grants. The design of the construction project by the State Department of Public Works took longer than expected and thus the Board could not start the construction in the year. The reduction in GoK funding, delays in the design of the National Laboratory as well as anticipated effect of the drought necessitated the downward revision of the budget revenue from Ksh. 1.172 Billion to Ksh. 472.9 Million.

**Notes**

**a) Revenue from licenses and permits (29% over the budget)** - The development and rolling out of Online Licensing and Inspection System to all Branch Offices coupled with introduction of Mpesa platform increased the efficiency in license fee payment. Similarly, the consumer awareness programme which started in the year as well as continued surveillance on the informal milk marketing contributed to the formalisation of some enterprises which were earlier operating without licenses. This contributed towards increased revenue on licenses and permits.

**b) Total revenue** - Despite the drought, the Board exceeded the budgeted collection of A in A with Ksh. 10.5 million as a result of continued surveillance on the informal milk marketing which guaranteed intakes in the formal sector. Similarly, automation of the Board licensing process and continuous follow up on intakes data reported by licenses, yielded positively to the increase in revenue.

**c) Depreciation and amortisation expense (20% above the budget)** - The increase was mainly as a result of the amortisation of Kabete Land, where the lease was amortised by Kshs. 2.17 million. This took effect from 1 April 1996 and the amortisation will be done over 99 years being the term of the lease.

**d) Reconciliation of deficit as per the statement of comparison of Budget and actual amounts and surplus as per the Statement of financial performance**

	Final Budget	Actual
	2016-2017	2016-2017
	Kshs	Kshs
Deficit as per statement of comparison of Budget and actual amounts	(22,081,977)	(8,695,833)
Add back capital expenditure	22,335,000	24,248,131
<b>Surplus as per Statement of financial performance</b>	<b>253,023</b>	<b>15,552,298</b>

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**1. General information**

Kenya Dairy Board is established by and derives its authority and accountability from The Dairy Industry Act Cap 336. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to regulate, promote and develop Dairy Industry in Kenya.

**2. Statement of compliance and basis of preparation**

The Board's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Board. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

**3. Adoption of New and revised Standards**

**(i) Relevant new standards and amendments to published standards effective in the year ended 30 June 2017**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 33</b> First time adoption of Accrual Basis IPSAS	<b>(Effective for annual periods beginning on or January 1, 2017).</b> In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.  The Board adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply.
<b>IPSAS 34:</b> Separate Financial Statements	<b>(Effective for annual periods beginning on or January 1, 2017).</b> In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.  The Board does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
<b>IPSAS 35:</b> Consolidated Financial Statements	<b>(Effective for annual periods beginning on or January 1, 2017).</b> In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following: - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity  Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.  The Board does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
<b>IPSAS 36:</b> Investments in Associates and Joint Ventures	<b>(Effective for annual periods beginning on or January 1, 2017).</b> In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.  The Board does not have investments in associates or joint ventures.
<b>IPSAS 37:</b> Joint Arrangements	<b>(Effective for annual periods beginning on or January 1, 2017).</b> In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.  The Board does not have an interest in a joint arrangement and therefore the standard does not apply.

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**(i) Relevant new standards and amendments to published standards effective in the year ended 30 June 2017**

Standard	Impact
IPSAS 38: Disclosure of Interests in Other Entities	<p><b>(Effective for annual periods beginning on or January 1, 2017).</b> In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows</p> <p>The Board does not have an interests in other entities and therefore the standard does not apply</p>

**(ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017.**

Standard	Effective date and impact
IPSAS 39: Employee Benefits	<p><b>Applicable: 1<sup>st</sup> January 2018.</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach</p>
IPSAS 40: Public Sector Combinations	<p><b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.</p>

**4. Summary of significant accounting policies**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

The Board recognizes revenues from cess, levies, penalties and fees when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably. Specifically;

**Cess**

Cess is payable to Kenya Dairy Board by all producers who produces milk for sale or converts milk to any other dairy produce for sale. Cess is collected by all licensed milk traders on behalf of the Board at a rate of twenty cents per litre. Cess is payable to the Board on or before the tenth (10th) day after the month of production and it is accounted for on accrual basis.

**Processors' levy**

Processors' levy payable to Kenya Dairy Board by all licensed processors at a rate of twenty cents per litre of milk processed. The levy is payable to the Board on or before the tenth (10th) day after the month of processing and it is accounted for on accrual basis.

**Import levy**

Import levy is payable by any person who imports milk or any other Dairy produce at a rate of 7% of gross cost, insurance and freight (landed value) of the milk or dairy produce.

**Penalties**

Penalties are charge to any person who fails to remit the cess or levies to the Board. As required by law. Interest on cess is charged at a rate of 12% for the first of month in which the cess remain unpaid and 6% compound interest for each subsequent month. Any person who fails to pay the levy is liable to pay interest of 25% for the first month in which the levy remains unpaid and 12% compound interest for each subsequent month.

**Licenses and permit fees**

Licensing fees is paid by licensed trader on annual basis, while permit is paid by Dairy transporters and importers. Licenses and permit fees are accounted for on accrual basis.

**KENYA DAIRY BOARD  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**Summary of significant accounting policies (Continued)**

**Transfers from Government and other entities**

Revenues from non-exchange transactions with Government and other entities are measured at fair value and recognized when the monies are received and asset (cash, goods, services and property) recognition criteria are met, if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably

**ii) Revenue from exchange transactions**

**Sale of tenders and publications**

Revenue from the sale of tenders and publications is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Board.

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

**b) Budget information**

The original budget for FY 2016-2017 was approved by The National Treasury in May 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Board upon receiving the respective approvals in order to conclude the final budget.

The Board's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under the same page of these financial statements.

**c) Taxation**

No tax provision has been made in these financial statements since the income of Kenya Dairy Board is exempt from taxation under the First Schedule, Part 1 of the Income Tax Act.

**d) Property, plant and equipment**

All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives, as follows:

	<b>Rate (%)</b>
Motor vehicles	25.00%
Office and laboratory equipment	12.50%
Furniture and fittings	12.50%
Computers	30.00%

**Summary of significant accounting policies (Continued)**

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the statement of financial performance. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to accumulated surplus.

**e) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as finite and amortisation is calculated using the straight-line method to allocate their cost or revalued amounts less their residual values over their estimated useful lives at a rate of 30%.

**f) Operating leases**

The value of leasehold parcels of land is treated as operating lease and amortised over the period of the lease.

**g) Financial instruments**

**i) Financial assets**

**Initial recognition and measurement**

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Board determines the classification of its financial assets at initial recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

**Impairment of financial assets**

The Board assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or an entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- a) The debtors or a entity of debtors are experiencing significant financial difficulty
- b) Default or delinquency in interest or principal payments
- c) The probability that debtors will enter bankruptcy or other financial reorganization
- d) Observable data indicates a measurable decrease in estimated future cash flows. (For example, changes in arrears or economic conditions that correlate with defaults)

**ii) Financial liabilities**

**Initial recognition and measurement**

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in case of loans and borrowings, plus directly attributable transaction costs.

**Loans and borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognised in surplus or deficit when the liabilities are derecognised as well as through the effective interest method amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

**h) Related parties**

The Board regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Board, or vice versa. Members of key management are regarded as related parties and comprise the Managing Director, Technical Services Manager, Administrative Manager and the Acting Finance Manager.

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**Summary of significant accounting policies (Continued)**

**i) Provisions**

Provisions are recognized when the Board has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement

**Contingent liabilities**

The Board does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

**Contingent assets**

The Board does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs

**j) Nature and purpose of reserves**

The Board creates and maintains reserves in terms of accumulated surplus and revaluation reserves.

**k) Changes in accounting policies and estimates**

The Board recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**l) Employee benefits**

**Retirement benefit plan**

The Board operates a defined contribution pension scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Board and employees. Benefits are paid to retiring staff in accordance with the scheme's rules and regulations. The Board and all its employees also contribute to the National Social Security Fund, a statutory defined contribution pension scheme. The Board's obligation under the scheme is limited to the specific contributions legislated from time to time and are currently limited to a maximum of Kshs 200 per month per employee.

The Board's contribution in respect of retirement benefit costs are charged to the income statement in the year in which they relate.

Gratuity for contracted employees are charged against income in the year in which they become payable.

**m) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and which were not surrendered or accounted for at the end of the financial year.

**n) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation

**5. Significant judgements and sources of estimation uncertainty**

The preparation of the Board's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods

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**Summary of significant accounting policies (Continued)**

**Estimates and assumptions**

The Board makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below

The present value of the pension obligations depends on a number of factors that are determined on an a defined contribution using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Board determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Board considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 14.

**Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Board.
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- The nature of the processes in which the asset is deployed.
- Availability of funding to replace the asset
- Changes in the market in relation to the asset.

**Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

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<b>6. Cess, levies and penalties</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Cess receipts	128,748,297	132,316,738
Processors levy	126,767,155	137,293,477
Import levy	34,429,491	34,978,799
Confiscated milk sale	61,039	35,675
Penalties	6,215,267	1,398,294
	<b>296,221,249</b>	<b>306,022,983</b>

<b>7. Licenses and permits</b>		
Licence fees	11,353,300	15,754,260
Application fees	3,459,600	3,593,680
	<b>14,812,900</b>	<b>19,347,940</b>

**8. Transfers from the Government and others**

**(a) Unconditional grants**

Operational grants from G.o.K	163,882,813	221,516,339
Other research grants	9,247,307	8,150,000
	<b>173,130,120</b>	<b>229,666,339</b>

**Conditional grants**

Capital expenditure grants from G.o.K	-	200,000,000
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**Total transfers from the Government and others**

	<b>173,130,120</b>	<b>429,666,339</b>
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**(b) Amount recognised to statement of financial performance**

Deferred amount from previous financial year	100,000,000	-
Amount received in the year and recognised to statement of financial performance	57,268,640	88,908,169
	<b>157,268,640</b>	<b>88,908,169</b>

**(c) Detailed analysis of the grants by entity**

Name of the Entity sending the Grant	Amount received in the year and recognised to statement of financial performance Kshs	Amount Deferred Kshs	Total Grants 2016-2017 Kshs	Total Grants 2015-2016 Kshs
State Department of Livestock	9,725,000	-	9,725,000	20,000,000
State Department of Livestock	9,725,000	-	9,725,000	40,758,169
State Department of Livestock	9,725,000	-	9,725,000	10,000,000
State Department of Livestock	19,707,813	115,000,000	134,707,813	110,000,000
State Department of Livestock	-	-	-	240,758,170
New KCC Limited*	-	-	-	600,000
Tetra Pak Limited	-	-	-	500,000
Heifer Project International	-	-	-	1,200,000
USAID**	4,200,000	-	4,200,000	2,750,000
Brookside Dairy Limited	500,000	-	500,000	2,000,000
SDCP***	1,585,827	861,480	2,447,307	1,100,000
Kenya Markets Trust	2,100,000	-	2,100,000	-
	<b>57,268,640</b>	<b>115,861,480</b>	<b>173,130,120</b>	<b>429,666,339</b>

\* New Kenya Co-operative Creameries Limited

\*\* United State Agency for International Development

\*\*\* Smallholder Dairy Commercialization Programme

<b>9. Interest income</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Interest on staff car loans	563,620	464,516
Interest on bank deposits	12,839,594	-
	<b>13,403,214</b>	<b>464,516</b>

**10. Other income**

Tender sales	6,000	25,000
Sale of publications	8,800	250,581
Gain on disposal of non current assets	1,500,500	2,162,080
Hire of Promotional Booths	240,000	-
	<b>1,755,300</b>	<b>2,437,661</b>

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<b>11. Administration expenses</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Electricity expenses	277,217	167,415
Bank charges	499,421	479,521
Professional fees	1,438,960	180,960
Audit fees	754,000	754,000
Insurance	4,733,578	3,303,382
Medical expenses	6,117,306	7,000,185
Postal and courier expenses	631,211	758,589
Printing and stationery expenses	4,479,656	3,523,503
Rent and rates	18,447,819	19,677,786
Staff welfare	12,710,548	5,641,603
	<b><u>50,089,716</u></b>	<b><u>41,486,944</u></b>
<b>12. Board members expenses</b>		
Mileage allowances	1,636,678	1,402,939
Travel and accommodation allowances	5,628,862	3,019,612
Sitting allowances	4,340,000	3,660,000
Chairperson's monthly allowance	1,044,000	468,663
Medical insurance	561,261	736,295
	<b><u>13,210,801</u></b>	<b><u>9,287,509</u></b>
<b>13. Depreciation and amortisation expenses</b>		
Depreciation	21,331,156	17,119,922
Amortisation of intangible assets	2,281,380	1,597,866
Amortisation of operating leases	2,171,717	-
	<b><u>25,784,253</u></b>	<b><u>18,717,788</u></b>
<b>14. Employee costs</b>		
Employer contribution to staff pension	14,509,390	13,319,091
Passage and leave expenses	10,873,779	10,378,542
Salaries and wages	135,682,763	124,670,464
	<b><u>161,065,932</u></b>	<b><u>148,368,097</u></b>
<p>The Board makes defined contribution to a Pension Scheme administered by Kenindia Assurance Company Limited and the National Social Security Fund (NSSF). The Board will continue paying contributions to the Pension Scheme at a rate of 10% of basic salary by employees and employer 20% and NSSF Kshs 200 per month. The contributions made during the year were as follows;</p>		
<b>Employer contribution to staff pension</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
NSSF Employer contributions	323,200	292,400
Employer pension contributions	12,436,240	12,922,841
Gratuity provision for contracted staff	1,749,950	103,850
	<b><u>14,509,390</u></b>	<b><u>13,319,091</u></b>
<b>Salaries and wages</b>		
Basic salaries and wages	94,132,763	84,777,113
House allowances	28,081,000	26,525,450
Staff mileage and commuter allowances	13,469,000	13,367,901
	<b><u>135,682,763</u></b>	<b><u>124,670,464</u></b>
<b>15. Operating expenses</b>		
Advertising and publicity	2,897,077	6,349,513
External travelling and accommodation	5,157,679	2,900,656
Information technology services	684,987	3,184,074
Laboratory expenses	2,600,829	4,160,212
Show expenses	2,734,810	2,597,320
Standardization and traceability	4,730,260	2,711,100
Internet and telephone expenses	3,879,930	3,240,562
Training expenses	7,417,661	6,377,818
Transport and operating expenses	10,181,810	6,785,937
Travelling and accommodation expenses	24,800,526	24,415,619
	<b><u>65,085,569</u></b>	<b><u>62,722,811</u></b>

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<b>16. Development expenses</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Marketing and Benchmarking	1,976,755	2,063,517
Research and Dairy development	934,450	4,186,766
Generic milk consumption campaign	1,002,447	2,130,750
Support to Stakeholder Organisations	2,140,996	675,030
Control of informal milk marketing and consumer education	125,867,504	96,656,127
School milk programme	13,070,056	9,370,223
Conference and exhibitions	1,076,501	5,803,801
Corporate Social Responsibility	-	2,194,050
Export promotion activities	-	325,516
	<b>146,068,709</b>	<b>123,405,780</b>

<b>17. Other expenses</b>		
Donations and environmental conservation	1,606,923	1,333,891
Maintenance of plant and equipment	209,398	260,460
Maintenance of stations	4,390,904	3,099,524
Uniform and clothing expenses	396,800	853,925
	<b>6,604,025</b>	<b>5,547,800</b>

**18. Property, plant and equipment**

	<b>Capital Work in progress Kshs</b>	<b>Motor vehicles Kshs</b>	<b>Furniture and fitting Kshs</b>	<b>Computers and accessories Kshs</b>	<b>Office and lab equipment Kshs</b>	<b>Total assets Kshs</b>
<b>Cost</b>						
As at 30 June 2015	-	73,926,490	10,909,579	32,049,349	6,989,197	<b>123,874,615</b>
Additions	-	12,300,000	2,546,460	6,882,964	806,385	<b>22,535,809</b>
Disposals during the year	-	(4,092,448)	(517,155)	(2,773,322)	(849,185)	<b>(8,232,110)</b>
<b>As at 30 June 2016</b>	<b>-</b>	<b>82,134,042</b>	<b>12,938,884</b>	<b>36,158,991</b>	<b>6,946,397</b>	<b>138,178,314</b>
<b>Accumulated depreciation</b>						
As at 30 June 2015	-	46,242,439	6,894,005	24,925,100	4,662,656	<b>82,724,200</b>
Charge for the year	-	9,406,416	1,240,909	5,944,655	527,942	<b>17,119,922</b>
Disposals during the year	-	(4,092,450)	(503,404)	(2,474,210)	(817,309)	<b>(7,887,373)</b>
<b>As at 30 June 2016</b>	<b>-</b>	<b>51,556,405</b>	<b>7,631,510</b>	<b>28,395,545</b>	<b>4,373,289</b>	<b>91,956,749</b>
<b>Net Book Value</b>						
<b>As at 30 June 2016</b>	<b>-</b>	<b>30,577,637</b>	<b>5,307,374</b>	<b>7,763,446</b>	<b>2,573,108</b>	<b>46,221,565</b>

**Property, plant and equipment**

	<b>Capital Work in progress Kshs</b>	<b>Motor vehicles Kshs</b>	<b>Furniture and fitting Kshs</b>	<b>Computers and accessories Kshs</b>	<b>Office and lab equipment Kshs</b>	<b>Total assets Kshs</b>
<b>Cost</b>						
As at 30 June 2016	-	82,134,042	12,938,884	36,158,991	6,946,397	<b>138,178,314</b>
Additions	3,029,377	10,920,000	2,749,109	2,861,564	457,981	<b>20,018,031</b>
Disposals during the year	-	(4,300,000)	(50,126)	-	-	<b>(4,350,126)</b>
<b>As at 30 June 2017</b>	<b>3,029,377</b>	<b>88,754,042</b>	<b>15,637,867</b>	<b>39,020,555</b>	<b>7,404,378</b>	<b>153,846,219</b>
<b>Accumulated depreciation</b>						
As at 30 June 2016	-	51,556,405	7,631,510	28,395,545	4,373,289	<b>91,956,749</b>
Charge for the year	-	13,961,415	1,534,144	5,233,559	602,038	<b>21,331,156</b>
Disposals during the year	-	(4,300,000)	(50,126)	-	-	<b>(4,350,126)</b>
<b>As at 30 June 2017</b>	<b>-</b>	<b>61,217,820</b>	<b>9,115,528</b>	<b>33,629,104</b>	<b>4,975,327</b>	<b>108,937,779</b>
<b>As at 30 June 2017</b>	<b>3,029,377</b>	<b>27,536,222</b>	<b>6,522,339</b>	<b>5,391,451</b>	<b>2,429,051</b>	<b>44,908,440</b>

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<b>19. Intangible assets</b>	<b>2016-2017 Kshs</b>	<b>2015-2016 Kshs</b>
<b>Cost</b>		
At 1 July	18,877,014	17,541,014
Additions	4,230,100	1,336,000
At 30 June	<u>23,107,114</u>	<u>18,877,014</u>
<b>Amortisation</b>		
At 1 July	9,618,463	8,020,597
Charge for the year	2,281,380	1,597,866
At 30 June	<u>11,899,843</u>	<u>9,618,463</u>
<b>Net book value</b>		
At 30 June	<u><b>11,207,271</b></u>	<u><b>9,258,551</b></u>

Intangible Assets consist of computer software licences costs and website development costs. They are amortised on the straight-line method to write them off over their expected useful life at the rate of 30% per annum.

<b>20. Operating Leases</b>	<b>2016-2017 Kshs</b>	<b>2015-2016 Kshs</b>
Balance brought forward	216,500,000	216,500,000
Revaluation during the year	-	-
At 30 June	<u>216,500,000</u>	<u>216,500,000</u>
<b>Amortisation</b>		
At 1 July	-	-
Prior year adjustment	43,977,273	-
Charge for the year	2,171,717	-
At 30 June	<u>46,148,990</u>	<u>-</u>
<b>Net book value</b>		
At 30 June	<u>170,351,010</u>	<u>216,500,000</u>

Operating leases relates to Land L.R. No. 21707 in Kabete Area, Nairobi County valued at Ksh. 215,000,000 and Plot No. 205 situated in Narok Town valued at Ksh. 1,500,000. The lease for Kabete land runs for a period of 99 years from 1 April 1996. The Board has not been able to ascertain the period of lease for the plot in Narok since the Title documents have not been obtained. The value of the Kabete land is amortised with effect from 1 April 1996 over 99 years being the lease period. Accumulated amortisation of Ksh. 43,977,273 relating to 1 April 1996 to 30 June 2016 has been included in the prior year adjustment since no amortisation was provided in the financial statements during the period.

<b>21. Cash and cash equivalents</b>	<b>2016-2017 Kshs</b>	<b>2015-2016 Kshs</b>
Bank balances	352,946,642	348,823,957
Cash on hand and in transit	259,951	687,174
	<u><b>353,206,593</b></u>	<u><b>349,511,131</b></u>

**Detailed analysis of the cash and cash equivalents**

**(a) Bank balances**

Name of the Bank	Account No.	Currency	2016-2017 Kshs	2015-2016 Kshs
Co-operative Bank of Kenya	011360010006600	Kshs	48,073,931	344,653,832
Kenya Commercial Bank	1103250906	Kshs	304,541,943	3,882,220
Kenya Commercial Bank	1102653993	Kshs	136,732	88,369
National Bank of Kenya	01003002830700	Kshs	194,036	199,536
<b>Total</b>			<u><b>352,946,642</b></u>	<u><b>348,823,957</b></u>

**(b) Cash on hand and in transit**

Form of cash holding	Currency	2016-2017 Kshs	2015-2016 Kshs
Undeposited cash	Kshs	126,571	448,224
Mpesa Account	Kshs	133,380	238,950
<b>Total</b>		<u><b>259,951</b></u>	<u><b>687,174</b></u>

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<b>22. Receivables from non-exchange transactions</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Receivables from non-exchange transactions comprises of the following.-		
Levies and cess receivable	31,372,887	27,294,525
Provision for bad and doubtful debts	(1,924,065)	(1,924,065)
	<b>29,448,822</b>	<b>25,370,460</b>

<b>23. Other receivables and prepayments</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Staff car loan	19,347,000	13,365,502
Deposits	3,104,988	2,812,755
Staff salary advances	1,156,160	1,344,189
Ex- Staff receivables	400,782	400,782
Prepayments	1,716,883	2,432,681
Provision for bad and doubtful debts	(400,782)	(400,782)
	<b>25,325,031</b>	<b>19,955,127</b>

Provision for bad and doubtful debts has been made for ex-staff receivables who owes the Board but have since left the service.

<b>24. Revaluation reserves</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
At start of year	216,500,000	216,500,000
Prior year adjustment	(43,977,273)	-
Transfer of excess depreciation on revaluation	(2,171,717)	-
	<b>170,351,010</b>	<b>216,500,000</b>

Revaluation reserve is as a result of valuation of land received from the Government of Kenya as grant. The two parcels of land were revalued to Ksh. 216,500,000 by Chief Government Valuer, Ministry of Lands, Housing and Urban Development in the reports dated February 2015. Prior year adjustment relates to accumulated amortisation for an existing lease on L.R No. 21707 in Kabete area, Nairobi which was not provided in the period 1 April 1996 to 30 June 2016.

<b>25. Accumulated surplus</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
This comprises of accumulated surplus over the years.		
At start of the year	71,021,109	63,376,569
Surplus for the year	15,552,298	7,644,540
Transfer of excess depreciation on revaluation	2,171,717	-
	<b>88,745,124</b>	<b>71,021,109</b>

<b>26. Gratuity provision</b>		
Balance at 1 July	103,850	4,910,400
Paid during the year	-	(4,910,400)
Provision for the year	1,749,950	103,850
Balance at 30 June	<b>1,853,800</b>	<b>103,850</b>

<b>27. Trade and other payables from non-exchange transactions</b>		
Payables from non exchange transactions	5,101,507	29,461,722
Payroll liabilities	8,359,677	7,226,778
KMR Staff Pension	109,299	109,299
KNAC Staff Pension	341,051	341,050
Alico Insurance claims	35,082	35,082
Withheld Taxes	542,724	418,774
	<b>14,489,340</b>	<b>37,592,705</b>

<b>28. Current provisions</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Leave provision	1,547,243	-
Chairman monthly allowance	87,000	87,000
Audit fees	754,000	754,000
	<b>2,388,243</b>	<b>841,000</b>

<b>Description</b>	<b>Leave Provision</b>	<b>Chairman Allowance</b>	<b>Audit fees</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Balance at the beginning of the year	-	87,000	754,000	841,000
Payment during the year	-	(87,000)	(754,000)	(841,000)
Additional provision	1,547,243	87,000	754,000	2,388,243
<b>Balance at the end of the year</b>	<b>1,547,243</b>	<b>87,000</b>	<b>754,000</b>	<b>2,388,243</b>

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**29. Deferred Income**

	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
National Government	355,758,170	340,758,170
International Funders	861,480	-
	<b><u>356,619,650</u></b>	<b><u>340,758,170</u></b>

<b>The deferred income movement is as follows;</b>	<b>National Government Kshs</b>	<b>International Funders Kshs</b>	<b>Total Kshs</b>
Balance brought forward	340,758,170	-	340,758,170
Received during the year	163,882,813	9,247,307	173,130,120
Recognised in the statement of financial performance	(148,882,813)	(8,385,827)	(157,268,640)
Balance carried forward	<b>355,758,170</b>	<b>861,480</b>	<b>356,619,650</b>

**30. Financial instruments - Financial risk management**

Exposure to currency, interest rate, liquidity and credit risk arises in the normal course of the Board's operations. This note presents information about the Board's exposure to each of the above risks, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

**Fair values**

Set out below, is a comparison by class of the carrying amounts and fair value of the Board's financial instruments

**Financial assets**

**2016-2017**

	<b>Carrying amount</b>	<b>Fair value</b>
	<b>Kshs</b>	<b>Kshs</b>
Receivables from non-exchange transactions	31,372,887	29,448,822
Other receivables and prepayments	25,725,813	25,325,031
Cash and cash equivalents	353,206,593	353,206,593
	<b><u>410,305,293</u></b>	<b><u>407,980,446</u></b>

**2015-2016**

	<b>Carrying amount</b>	<b>Fair value</b>
	<b>Kshs</b>	<b>Kshs</b>
Receivables from non-exchange transactions	27,294,525	25,370,460
Other receivables and prepayments	20,355,909	19,955,127
Cash and cash equivalents	349,511,131	349,511,131
	<b><u>397,161,565</u></b>	<b><u>394,836,718</u></b>

**Financial liabilities**

**2016-2017**

	<b>Carrying amount</b>	<b>Fair value</b>
	<b>Kshs</b>	<b>Kshs</b>
Trade and other payables from non-exchange transactions	14,489,340	14,489,340
Current provisions	2,388,243	2,388,243
Gratuity provision	1,853,800	1,853,800
	<b><u>18,731,383</u></b>	<b><u>18,731,383</u></b>

**2015-2016**

Trade and other payables from non-exchange transactions	37,592,705	37,592,705
Current provisions	841,000	841,000
Gratuity provision	103,850	103,850
	<b><u>38,537,555</u></b>	<b><u>38,537,555</u></b>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

To estimate the fair values of cash and cash equivalents, trade receivables, trade payables and other current liabilities, it has been assumed that their carrying amounts is largely due to the short-term maturities of these instruments.

**Credit risk**

Credit risk is the risk of financial loss to the Board if licensees or counterparties to financial instruments fail to meet their contractual obligations, and it arises principally from receivables, prepayments and cash and cash equivalents. The table below shows the Board's maximum exposure to credit risk as at 30 June 2017 and 30 June 2016.

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**30. Financial instruments - Financial risk management (Continued)**

<b>30 June 2017</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>	<b>Total Kshs</b>
Receivables from non-exchange transactions	29,448,822	-	1,924,065	31,372,887
Other receivables and prepayments	25,325,031	-	400,782	25,725,813
Bank balances	352,946,642	-	-	352,946,642
	<b>407,720,495</b>	<b>-</b>	<b>2,324,847</b>	<b>410,045,342</b>

<b>30 June 2016</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>	<b>Total Kshs</b>
Receivables from non-exchange transactions	25,370,460	-	1,924,065	27,294,525
Other receivables and prepayments	19,955,127	-	400,782	20,355,909
Bank balances	348,823,957	-	-	348,823,957
	<b>394,149,544</b>	<b>-</b>	<b>2,324,847</b>	<b>396,474,391</b>

**Receivables**

Receivables are amounts owed by licensees, amounts prepaid on selected services and staff receivable and are presented net of impairment losses. The Board monitors the exposure to credit risk on an ongoing basis. The Board is compelled, by its constitutional mandate, to provide all citizens with services, without recourse to an assessment of creditworthiness.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review.

The Board's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position. The Board has no significant concentration of credit risk, with exposure spread over a large number of licensees, and is not concentrated in any particular sector or geographic area.

The Board establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables. The outstanding amounts of the 10 largest debtors represent 95% of the total outstanding balance. Cess and levies due to the Board is payable on or before the tenth day after the month of processing or production. The Board provided fully for all receivables outstanding over 365 days where there was no evidence of expected recovery.

**Cash and cash equivalents**

The Board limits its exposure to credit risk by holding its cash and cash equivalents with only reputable financial institutions that have a sound credit rating. Consequently, the Board does not consider there to be any significant exposure to credit risk.

**Liquidity risk**

Liquidity risk is the risk of the Board not being able to meet its obligations as they fall due. The Board's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Board's reputation. The Board ensures that it has sufficient cash on demand to meet expected operating expenses through the use of cash flow forecasts. The table below shows the Board's maximum exposure to liquidity risk as at 30 June 2017 and 30 June 2016.

<b>30 June 2017</b>	<b>Within 12 months Kshs</b>	<b>Over 12 months Kshs</b>
Trade and other payables from non-exchange transactions	14,489,340	-
Gratuity provision	-	1,853,800
Current provisions	2,388,243	-
	<b>16,877,583</b>	<b>1,853,800</b>

<b>30 June 2016</b>	<b>Within 12 months Kshs</b>	<b>Over 12 months Kshs</b>
Trade and other payables from non-exchange transactions	37,592,705	-
Gratuity provision	-	103,850
Current provisions	841,000	-
	<b>38,433,705</b>	<b>103,850</b>

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**30. Financial instruments - Financial risk management (Continued)**

**Foreign exchange risk**

The Board does not undertake transactions denominated in foreign currencies. Therefore, exposures to exchange rate fluctuations does not arise.

**Price risk**

The Board does not hold investments that would be subject to price risk hence the risk is not relevant.

**Interest rate risk**

The Board was not exposed to interest rate risk since it did not hold deposit in an interest bearing account with financial institutions.

**Capital risk management**

The objective of the Board's capital risk management is to safeguard the institution's ability to continue as a going concern. The Board's capital structure comprises of the following funds:

	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserves	170,351,010	216,500,000
Accumulated surplus	88,745,124	71,021,109
	<u><b>259,096,134</b></u>	<u><b>287,521,109</b></u>

**31. Related Party Balances**

**(a) Nature of related party relationship**

The Board regards a related party as a person or an authority with the ability to exert control individually, jointly or to exercise significant influence over the Board, or vice versa. The Board is related to;

- i) The National Government
- ii) Ministry of Agriculture, Livestock & Fisheries
- iii) New Kenya Co-operative Creameries Limited
- iv) Key management
- v) Board of Directors

**(b) Related party transactions**

	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Grants received from Government of Kenya	163,882,813	421,516,339
Revenue received from New Kenya Co-operative Creameries Limited	43,457,288	49,060,583
Car loans granted to Key management	6,600,000	-
	<u>6,600,000</u>	<u>-</u>

**(c) Key management compensation**

Remuneration and allowances for key management	24,256,188	21,522,212
Allowances paid to Board Members	13,210,801	9,287,509
	<u>13,210,801</u>	<u>9,287,509</u>

**(d) Due from related parties**

Due from New Kenya Co-operative Creameries Limited	9,492,035	2,243,159
Car loans due from Key management	6,038,315	987,500
	<u>6,038,315</u>	<u>987,500</u>

**32. Contingent liabilities**

**a) Litigations**

(i) Petition No. 552 of 2015 - The Council of Governors Vs Attorney General, Kenya Dairy Board and 13 others in the matter of Intergovernmental and Relations Act, where the Council of Governors is challenging the Constitutionality of the functions of selected State Corporations and Government Agencies, including Kenya Dairy Board

(ii) HCCC No. 763 of 2003 - Dairycom (K) Limited Vs Kenya Dairy Board and Kenya Bureau of Standards seeking compensation for lost business following confiscation of imported Butter.

The Board members are however not aware of any other litigation arising from normal operations of the Board which may have material effect on the financial position

**b) Operating lease rentals**

The Board as Lessee;

	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Future minimum lease payments under non-cancellable operating leases;		
<b>Office lease rentals</b>		
Due within one year	13,917,484	13,419,310
Due within two and five years	47,710,988	3,596,367
Later than five years	11,585,916	-
Total operating lease expense commitments	<u><b>73,214,388</b></u>	<u><b>17,015,677</b></u>

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<b>33. Capital commitments</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>Kshs</b>	<b>Kshs</b>
Authorised for proposed erection and completion of National Dairy Laboratory at Upper Kabete, Nairobi.	110,000,000	-
Authorised and contracted for proposed erection and completion of Boundary Wall, Gate House and Electric Fence at Upper Kabete, Nairobi	20,771,359	-
	<b>130,771,359</b>	<b>-</b>
<b>34. (a) Cash generated from operations</b>		
Surplus from operating activities	15,552,298	7,644,540
Add back: Depreciation	21,331,156	17,119,922
Amortisation of intangible assets	2,281,380	1,597,866
Amortisation of operating leases	2,171,717	-
Less: Gain on disposal of non current assets	(1,500,500)	(2,162,080)
	<b>24,283,753</b>	<b>16,555,708</b>
<b>Adjustment for changes in working capital</b>		
(Increase)/decrease in receivables from non-exchange transactions	(4,078,362)	3,673,851
(Increase)/decrease in other receivables and prepayments	(5,369,904)	792,312
Decrease in trade and other payables from non-exchange transactions	(23,103,365)	(4,191,649)
Increase/(decrease) in provisions	1,547,243	(389,000)
Increase/(decrease) in gratuity provision	1,749,950	(4,806,550)
Increase in deferred income	15,861,480	340,758,170
	<b>(13,392,958)</b>	<b>335,837,134</b>
<b>Net cash flow generated from operating activities</b>	<b>26,443,093</b>	<b>360,037,382</b>

**(b) Reconciliation between Statement of Financial Performance and Statement of Cash Flows**

Year ended 30 June 2017	Charged to Statement of financial performance Kshs	Balance brought forward		Balance carried forward		Carrying amount per Statement of Cash flows Kshs
		Accruals Kshs	Prepayment Kshs	Accruals Kshs	Prepayment Kshs	
Administration expenses	50,089,716	1,422,570	(2,246,354)	(1,254,963)	1,716,883	49,727,852
Board members expenses	13,210,801	87,000	(186,327)	(87,000)	-	13,024,474
Employee costs	161,065,932	7,816,059	-	(12,246,152)	-	156,635,839
Operating expenses	65,085,569	7,595,732	-	(2,499,045)	-	70,182,256
Development expenses	146,068,709	4,367,730	-	(542,724)	-	149,893,715
Other expenses	6,604,025	851,700	-	(50,000)	-	7,405,725
<b>Total</b>	<b>442,124,752</b>	<b>22,140,791</b>	<b>(2,432,681)</b>	<b>(16,679,884)</b>	<b>1,716,883</b>	<b>446,869,861</b>
<b>Year ended 30 June 2016</b>						
Administration expenses	41,486,944	1,847,581	(2,608,507)	(1,422,570)	2,246,354	41,549,802
Board members expenses	9,287,509	348,000	-	(87,000)	186,327	9,734,836
Employee costs	148,368,097	24,946,890	-	(7,816,059)	-	165,498,928
Operating expenses	62,722,811	1,494,057	-	(7,595,732)	-	56,621,136
Development expenses	123,405,780	1,097,319	-	(4,367,730)	-	120,135,369
Other expenses	5,547,800	36,490	-	(851,700)	-	4,732,590
<b>Total</b>	<b>390,818,941</b>	<b>29,770,337</b>	<b>(2,608,507)</b>	<b>(22,140,791)</b>	<b>2,432,681</b>	<b>398,272,661</b>

**35. Net movement in deposit, staff car loans and advances**

Year ended 30 June 2017	Car Loans Kshs	Deposits Kshs	Advances Kshs	Total Kshs
Balance brought forward	13,365,502	2,812,755	1,344,189	17,522,446
Balance carried forward	19,347,000	3,104,988	1,156,160	23,608,148
<b>Net movement during the year</b>	<b>(5,981,498)</b>	<b>(292,233)</b>	<b>188,029</b>	<b>(6,085,702)</b>
<b>Year ended 30 June 2016</b>				
Balance brought forward	12,849,212	3,887,897	1,401,822	18,138,931
Balance carried forward	13,365,502	2,812,755	1,344,189	17,522,446
<b>Net movement during the year</b>	<b>(516,290)</b>	<b>1,075,142</b>	<b>57,633</b>	<b>616,485</b>

**36. Ultimate Holding Entity**

The Board is a State Corporation established by The Dairy Industry Act Cap 336, under the Ministry of Agriculture, Livestock & Fisheries. Its ultimate parent is the Government of Kenya.

**37. Currency**

The financial statements are presented in Kenya Shillings (Kshs).

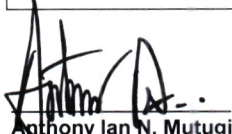
**38. Events after the reporting period**


There were no material adjusting and non-adjusting events after the reporting period.

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**PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS**

Issue/Observation from the Auditor	Management comment	Focal point Person	Status	Time Frame
<b>1. Property, plant and equipment</b>				
<p>As similarly reported in the previous year, the Property, Plant and equipment balance of Kshs. 262,721,565 as at 30 June 2016 includes a parcel of land, Plot No. 205 (Formerly Ref. No. PDB/R163/99/15) valued at Ksh. 1,500,000 after revaluation, situated in Narok Town, that was allocated to the Board in the year 2000 for office development. However, the Board has not obtained a title of ownership to date for the plot from the Ministry of Lands and Physical Planning. Consequently, it has not been possible to confirm the ownership status of the plot.</p>	<p>The Board is still following up on the Title Deed from the Ministry of Land, Housing and Urban Development and the National Land Commission.</p>	<p>Margaret R. Kibogy Managing Director</p>	<p>The National Land Commission issued a Letter of Allotment to the Board in October 2016. Consequently, the Board issued a Letter of Acceptance of Allotment and the conditions therein together with the payment of the prescribed charges of Kshs. 11,395.</p>	
<p>The Board also owns another piece of Land L.R. No. 21707 in Kabete Area, Nairobi County valued at Ksh. 215,000,000. The two pieces of land in Nairobi and Narok are both leaseholds, and although valued at Ksh. 216,500,000 have not been amortised over the lease period contrary to the requirements of International Accounting Standards (IAS) 17 - Leases.</p>	<p>The Board has provided amortisation for Kabete land with effect from 1 April 1996. Amortisation will be done over 99 years being the term of the lease. However, the Board has not been able to ascertain the period of lease for the plot in Narok since the Title document has not been obtained.</p>	<p>Margaret R. Kibogy Managing Director</p>	<p>Amortisation for the Plot in Narok to be provided from the first day of the lease period.</p>	

  
**Anthony Ian N. Mutugi**  
 Chairman of the Board  
 Date: 9/5/2018

  
**Margaret R. Kibogy**  
 Managing Director  
 Date: 9/5/2018

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**Appendix 1: PROJECTS IMPLEMENTED BY THE BOARD**

**Projects**

Projects implemented by the Board funded by development partners

Project Title	Project No.	Donor	Duration	Donor Commitment	Separated reporting as per the	Consolidated in the financial statements
None	N/A	N/A	N/A	N/A	No	No

**Status of Project completion**

During the year, the Board initiated the construction of the National Dairy Laboratory Complex. This project is funded by Government Grants.

Project	Total Project Cost Ksh	Total Expended to Date Ksh	Completion % to date	Budget Kshs	Actual Ksh	Sources of funds
Proposed erection and completion of Boundary Wall, Gate House, Electric Fence and proposed erection and completion of National Dairy Laboratory at Upper Kabete, Nairobi.	240,758,170	3,029,377	1.26%	240,758,170	3,029,377	GoK

The Board has already signed contracts for: (i) Proposed erection and completion of Boundary Wall, Gate House and Electric Fence (ii) Proposed erection and completion of National Dairy Laboratory at Upper Kabete, Nairobi. The Board is now awaiting the final approval by The Nairobi City County Government for the construction works to begin

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Appendix 2: INTER ENTITY TRANSFERS

Breakdown of Transfers from the State Department of Livestock

(a) Recurrent Grants	Bank statement date	Amount (Kshs)	Financial year to which the amount relate
	19-Sep-16	9,725,000	2016/2017
	28-Dec-16	9,725,000	2016/2017
	23-Feb-17	9,725,000	2016/2017
	24-Apr-17	134,707,813	2016/2017
	<b>Total</b>	<b>163,882,813</b>	

(b) No development grants were received during the year.

The above amounts have been communicated to and reconciled with the Ministry of Agriculture, Livestock & Fisheries.



Ag. Finance Manager  
Kenya Dairy Board

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**Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of MDA/ Donor Transferring the funds	Date Received as per Bank Statements	Nature: Recurrent or Development	Total Amount (Kshs)	Where recognised		Total Transfer during the year (Kshs)
				Statement of Financial performance (Kshs)	Deferred income (Kshs)	
State Department of Livestock	19-Sep-16	Recurrent	9,725,000	9,725,000	-	9,725,000
State Department of Livestock	28-Dec-16	Recurrent	9,725,000	9,725,000	-	9,725,000
State Department of Livestock	23-Feb-17	Recurrent	9,725,000	9,725,000	-	9,725,000
State Department of Livestock	24-Apr-17	Recurrent	134,707,813	19,707,813	115,000,000	134,707,813
USAID**	*	Donor fund	4,200,000	4,200,000	-	4,200,000
Brookside Dairy Limited	20-Dec-16	Donor fund	500,000	500,000	-	500,000
SDCP***	*	Donor fund	1,255,127	1,255,127	-	1,255,127
SDCP***	29-Jun-17	Donor fund	1,192,180	330,700	861,480	1,192,180
Kenya Markets Trust	*	Donor fund	2,100,000	2,100,000	-	2,100,000
			<b>173,130,120</b>	<b>57,268,640</b>	<b>115,861,480</b>	<b>173,130,120</b>

\* The funds were directly paid to Kenya Dairy Board suppliers for the Second School milk Conference

\*\* United State Agency for International Development

\*\*\* Smallholder Dairy Commercialization Programme